A meeting of the Federal Reserve Board was held in Washington on Monday, May 14, 1934, at 10:30 a. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. James
Mr. Thomas
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Wyatt, General Counsel
Mr. Vest, Assistant Counsel
Mr. Boatwright, Assistant Counsel

The Board considered and acted upon the following matters:

Telegram dated May 14, 1934, from Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, advising that, at a meeting of the board of directors today, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated May 11, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, transmitting the resignation of Miss Elizabeth M. Barcalow as a stenographer in the division and recommending that in accordance with the usual practice where employees have worked for three years or longer, Miss Barcalow be granted thirty days leave of absence with pay, and that her resignation be

accepted as of the close of business on July 31, 1934.

Approved.

Memorandum dated May 11, 1934, from Mr. Paulger, Chief of the Division of Examinations, recommending a change in the title of Mr. W. D. Dougal from assistant Federal reserve examiner to Federal reserve examiner, and that his salary be increased from the rate of $3,800 to the rate of $4,200 per annum, both effective May 16, 1934.

Approved.

Telegram to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Mr. Young's telegram May eleventh. Board approves designation of John Shinn as assistant examiner in Federal Reserve Agent's department your bank without change in compensation. Please advise effective date and salary rate and furnish information requested in Board's letter September 20, 1933 (X-7595)."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to the report of examination of the Lock Haven Trust Company, Lock Haven, Pennsylvania, as of December 19, 1933, and the supplementary information submitted in connection therewith.

"The report of examination indicates that estimated losses amounted to $70,690, including $23,345 on account of securities, and that the remaining depreciation in securities amounted to $214,000. The report of earnings and dividends for the six months' period ending December 30, 1933, shows that during the period the bank charged off $11,501 on account of losses in loans, $47,529 on account of losses and depreciation in securities, and $1,564 on account of losses in other assets, and

"that the amount of unallocated charge-off on account of securities was reduced by $54,785, which amount was credited to undivided profits.

"As indicated in the Board's letter of April 6, 1934, X-7848, the Board has consistently maintained the position that losses as classified by the examiner should be charged off or otherwise eliminated from the assets of the bank, and it is requested that you endeavor to obtain such action by the Lock Haven Trust Company. In the interests of cooperation, it may be advisable to take this matter up first with the appropriate State authorities. The Board's views with respect to the minimum amount of depreciation in securities to be eliminated following the examination of State member banks are also expressed in its letter X-7848.

"It has been noted that on the date of examination the bank had reserves of $68,000 for losses and depreciation. The Board feels that estimated losses and depreciation listed for elimination have not been properly eliminated by the setting up of reserves which are included with the bank's capital accounts in its published statements. Such reserves should be used either in making charge-offs of the estimated losses and depreciation or treated as valuation reserves and deducted from the assets against which they are allocated, showing only the net amount of the assets in the published statement. If any reserves for losses are shown among the capital accounts they should represent allocations of surplus and/or undivided profits to cover possible or potential losses; or, in other words, represent true 'reserves for contingencies'.

"The report reflects several violations of the conditions of membership and provisions of the Federal Reserve Act with respect to the maintenance of adequate credit data in connection with all unsecured loans; to the disposal of all shares of its own stock held in investments or as collateral within six months after its admission to membership on December 5, 1932; to the issuance of surety bonds without permission of the Federal Reserve Board; to the failure of an executive officer of the bank to file with the Chairman of the Board of Directors of his bank a statement of his borrowings at another bank; and to the purchase since June 16, 1933, of 200 shares of stock of the Curtis Publishing Company. It is also observed that preferential rates of interest on loans have been granted to certain officers and directors of the subject bank in possible violation of the Pennsylvania Banking Code. It will be appreciated if you will advise the Board what steps have been taken to effect corrections of these matters and obtain compliance with the conditions of membership and the provisions of the Federal Reserve Act.

"The examiner lists also several criticisms of the operations of the trust department, including the practice of carrying in the bank's own earnings interest received on trust mortgages. In reporting as to the corrections made, please include information as to the amount of such earnings carried in the bank's undivided profits and the adjustments made in connection therewith.

"It will be appreciated if you will advise the Board regarding these matters not later than June 1, 1934."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to Mr. Fletcher's letter of May 3, 1934, which is in reply to the Board's letter of April 26, 1934, wherein inquiry was made as to whether The Marengo Banking Company, Marengo, Ohio, which accomplished its membership in the System on January 15, 1934, had complied with the provisions of condition numbered 17, which provided that the bank should, within three months from the date of its admission to membership, reduce all excessive loans to amounts within the limits prescribed by the laws of the State of Ohio.

"The report of examination of The Marengo Banking Company, as of November 27, 1933, made in connection with its application for membership, showed that the bank on that date was carrying excessive loans as follows:

C. A. Bunker	$ 8,405
C. B. Smith	10,032

"It is noted that application has been made by Mr. Smith to the Federal Land Bank for a loan in an amount sufficient to liquidate his line at The Marengo Banking Company; that officers of the bank have stated that they were confident the loan would be granted, in which event Mr. Smith's line at the bank would be liquidated, and because of such circumstances Mr. Fletcher feels that additional time should be granted the bank in which to comply with the condition numbered 17.

"In view of all the information, the Board grants The Marengo Banking Company an extension of time to July 15, 1934, within which the provisions of condition numbered 17 may be complied with and it is requested that you advise the bank accordingly.

"No reference is made in Mr. Fletcher's letter to the Bunker line hereinbefore referred to and it is assumed that such line has now been reduced to an amount within legal limits."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"There is transmitted herewith for your consideration an application of the First Security Bank of Idaho, Boise, Idaho, a member bank, for permission to establish and operate a branch at Shelley, Idaho.

"At the present time the First Security Bank of Idaho is operating the fifteen branches which were approved by you on November 15, 1933.

Town	Population	Capital requirements
Ashton	1,003	$ 50,000
Blackfoot	3,199	50,000
Emmett	2,763	50,000
Gooding	1,592	50,000
Hailey	973	50,000
Idaho Falls	9,429	100,000
Jerome	1,976	50,000
Montpelier	2,436	50,000
Mountain Home	1,243	50,000
Nampa	8,206	100,000
Pocatello	16,471	100,000
Preston	3,381	50,000
Payette	2,618	50,000
Rupert	2,250	50,000
Shoshone	1,211	50,000
Shelley (proposed)	1,447	50,000
Main Office (Boise)	21,544	100,000
		$1,050,000

"The Commissioner of Finance of the State of Idaho has approved the establishment of the branch and the Federal Reserve Agent at San Francisco recommends approval of the application.

"In view of the apparent satisfactory condition of the applicant bank and the recommendation of the Federal Reserve Agent, the Federal Reserve Board recommends that you approve the establishment and operation of a branch at Shelley, Idaho, by the First Security

"Bank of Idaho, Boise, Idaho, on condition that:

1. Prior to the establishment of the branch, such bank, if it has not already done so, shall charge off or otherwise eliminate all losses shown in the report of credit investigation as of February 10, 1934, made by an examiner for the Federal Reserve Bank of San Francisco, and all depreciation in securities other than those in the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating and grading securities.

"The attached file includes a copy of the report of credit investigation of the First Security Bank of Idaho as of February 10, 1934, made by examiners for the Federal Reserve Bank of San Francisco, and a copy of the memorandum prepared by the Board's Division of Examinations. It will be appreciated if you will return this file when it has served your purpose and when you advise the Board of your action on the application described above."

Approved.

Telegram dated May 12, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Board considering questions raised by letter May 9 from Dillistin and inclosures and pending such consideration extends for ten days from May 13, 1934, time within which Central Farmers Trust Company of West Palm Beach, Florida must obtain and file agreements of its holding company affiliates on F.R.B. Form P-5."

Approved.

Letter to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Receipt is acknowledged of your letter of April 18, inclosing an amended application of the National Bank of Olney at Philadelphia, Philadelphia, Pennsylvania, for 150 shares of stock of the Federal Reserve Bank of Philadelphia.

"The amended application was not received at the Board's offices until April 20, the day after you and the Comptroller of the Currency were advised of the Board's approval of the

"application originally submitted. It is understood that the Comptroller of the Currency issued a charter to the bank on April 23 and that 150 shares of stock of the Federal Reserve Bank of Philadelphia were issued to it on April 24. In the circumstances the second application will be considered as a ratification of that previously submitted."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Crown Point', Crown Point, Indiana, from $50,000 to $25,000, pursuant to a plan which provides that the bank's capital shall be increased by $40,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with a voluntary contribution of approximately $13,000 which is to be raised locally, and a portion of the bank's surplus, undivided profits and reserve accounts, shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of May 4, 1934.

"In considering the plan under which the proposed reduction in capital is to be effected, it has been noted that after the proposed adjustments have been completed the bank's capital and surplus will amount to but approximately 9 per cent of total deposits. It has also been noted that your examiner criticised the management and recommended that any plan of rehabilitation submitted for approval should provide for the strengthening of such management. It is assumed, however, that you have these conditions in mind and that whenever it is feasible to do so you will obtain such further corrections as may be practicable."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Howard B. Stewart, Cashier of The First National Bank, Hermon, New York, reading as follows:

"The inquiry contained in the second paragraph of your letter of April 14, 1934, addressed to the Comptroller of the Currency, has been referred to the Federal Reserve Board for reply.

"You state that you have been issuing certificates of deposit which you understand do not comply with the Federal Reserve Board's Regulation Q; but that you intend calling in such certificates and issuing new certificates of deposit which do comply with the regulation. In the circumstances, you request to be advised whether you may lawfully pay interest on the deposits in question for the period they have been represented by the old style certificates, either by making such payment at the time the exchange is effected or by dating the new certificates back to the date of issuance of the old ones and paying interest for the entire period at the maturity of the new certificates.

"As indicated in Regulation Q, a certificate of deposit upon which interest may lawfully be paid must conform to the definition of a time certificate of deposit contained in the regulation; and, accordingly, interest may lawfully be paid on the deposits in question for the period during which the old certificates have been outstanding only if such certificates meet the requirements of the regulation with respect to time certificates of deposit. The Federal Reserve Board is unable to determine, however, without an examination of the certificates in question whether they comply with the definition of time certificates contained in the regulation and therefore cannot advise you definitely whether interest may lawfully be paid on the deposits for the period they have been represented by the old certificates."

Approved.

Letter dated May 11, 1934, approved by six members of the Board, to Mr. Fry, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of April 25, 1934, with which you inclosed an opinion of your Counsel with reference to a question arising under section 23A of the Federal Reserve Act. A State member bank on June 16, 1933, had loans to and investments in its affiliates in excess of twenty per cent of its capital and surplus and, subsequent to that date, it extended credit to one of its affiliates by the discount of a note which was eligible for rediscount at the Federal reserve bank. The question arises whether this action constituted a violation of section 23A of the Federal Reserve Act.

"Section 23A consists of three paragraphs. Under the first paragraph, loans and extensions of credit by a member bank

"to any of its affiliates, purchases under repurchase agreements from any such affiliates, investments in stock or obligations of any such affiliates and advances upon the security of stock or obligations of any such affiliates are prohibited, if the aggregate amount thereof outstanding will exceed, in the case of any one affiliate, ten per cent of the capital stock and surplus of such member bank or, in the case of all its affiliates, twenty per cent of the capital stock and surplus of such bank. The second paragraph provides in part as follows:

> "'Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof: Provided, That the provisions of this paragraph shall not apply to loans or extensions of credit secured by obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks. ***'

In the third paragraph, certain classes of affiliates are excepted from the provisions of the section.

"It is clear that loans or extensions of credit to an affiliate secured by paper which is eligible for rediscount or for purchase by Federal reserve banks are not subject to the requirements of the second paragraph of section 23A with regard to the form and amounts of collateral security, but it is also manifest that loans or extensions of credit secured by such paper are not excepted from the limitations of the first paragraph of this section unless the word 'paragraph' in the above quoted provision may be interpreted in a sense other than that in which it is ordinarily used. It is an established rule of statutory construction that, in the absence of ambiguity, words in a statute are to be read in the natural and ordinary meaning commonly given to them. Moreover, it is to be observed that in the third paragraph

"of section 23A, in excepting certain classes of affiliates from all of the provisions of the section, the word 'section' is used. In the circumstances it is not believed that it can be assumed that the word 'paragraph' in the second paragraph of the section was inadvertently used or that it was intended to have the same meaning as the word 'section' in the third paragraph. Accordingly, the Federal Reserve Board agrees with the opinion of your Counsel that a loan or extension of credit secured by paper eligible for rediscount or purchase at a Federal reserve bank is not excepted from the limitations of the first paragraph of section 23A of the Federal Reserve Act on the amount of such loans which may be made and that a member bank which already has outstanding loans and extensions of credit to its affiliates and investments in the stock or obligations of such affiliates in an amount up to twenty per cent of its capital stock and surplus (the limit prescribed by that paragraph) may not lawfully make an additional loan to an affiliate even though it is secured by paper eligible for rediscount or purchase at a Federal reserve bank."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"The Federal Reserve Board has given consideration to the application of Wm. J. Flather, Jr. under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of the American Security and Trust Company and as president and director of Wm. J. Flather Jr., Inc., both of Washington, D. C.

"It appears from the information contained in Mr. Flather's application that the business of Wm. J. Flather Jr., Inc. is limited to the making and selling of loans secured by first deed of trust on real estate, to the conduct of a general insurance business, and to the collection of rents.

"In a letter dated April 16, 1934 (X-7866) the Board expressed the opinion that, although there may be mortgage notes of a kind which should be classified as 'securities' for the purposes of Section 32, mortgage notes arising out of the ordinary type of direct loan on real estate are not 'securities' within the intendment of Section 32, and that neither such notes nor the mortgages securing the same should be classified as 'securities' in determining whether an organization engaged in

"dealing in such obligation comes within the scope of Section 32.

"It will be appreciated if you will advise the above named applicant that the provisions of Section 32 are deemed to be inapplicable to his service to the institution named in his application."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"The Federal Reserve Board has given consideration to the applications of John Saul, Andrew Saul, and G. Percy McGlue under Section 32 of the Banking Act of 1933 for permits to serve at the same time as directors of member banks and as directors and/or officers of B. F. Saul Company, Washington, D. C.

"It appears from the information contained in the applications that B. F. Saul Company is engaged in the business of lending money on notes secured by first deeds of trust on real estate, and that the company sells to the public only the original notes signed by the record owners of the property.

"In a letter dated April 16, 1934 (X-7866) the Board expressed the opinion that although there may be mortgage notes of a kind which should be classified as 'securities' for the purposes of Section 32, mortgage notes arising out of the ordinary type of direct loan on real estate are not 'securities' within the intendment of Section 32, and that neither such notes nor the mortgages securing the same should be classified as 'securities' in determining whether an organization engaged in dealing in such obligations comes within the scope of Section 32.

"It will be appreciated if you will advise the above named applicants that the provisions of Section 32 are deemed to be inapplicable to their service to the institutions named in their applications."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Arthur H. Bosworth, Denver, Colorado, referring to his application under section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of the First National Bank of Denver and as an

officer and director of Bosworth, Chanute, Loughridge & Co., both of Denver, Colorado, and stating that it appears that the relationship covered by the application is within the class which section 32 was designed to terminate, and that, accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant the application, although in the event the applicant desires to submit further facts or arguments in support of the application the Board is prepared to give them careful consideration.

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Karl W. Corby, Washington, D. C., reading as follows:

"The Federal Reserve Board has given careful consideration to your application under the Clayton Act for a permit to be at the same time a member of the firm of W. B. Hibbs & Company and a director of The Riggs National Bank, both of Washington, D. C.

"The Federal Reserve Board believes that it was the purpose of Section 8A of the Clayton Act to prevent the undue use of bank credit for the carrying of and trading in securities, and that the method by which the section was intended to accomplish this purpose was by terminating relationships involving the service of an officer, director, employee, or partner of an organization making loans secured by stock or bond collateral as a director, officer or employee of a national bank or other bank or trust company organized or operating under the laws of the United States. Since margin accounts, and the brokers' loans by which they are financed, constitute one of the principal ways in which credit is used for carrying or trading in securities, it appears that the service of a director, officer, employee or partner of a stock exchange firm carrying such margin accounts as a director, officer or employee of a national bank is one of the principal types of relationships at which the provisions of Section 8A were directed.

"It appears that the carrying of such margin accounts constitutes a substantial portion of the business of W. B. Hibbs & Company, and that therefore the relationship covered by your application is within the class which that section was designed to terminate. Accordingly, the Board is unable to find that it would be not incompatible with the public interest as declared by the Congress to grant your application.

"It may be noted that the Federal Reserve Board would not be authorized to grant your application in any event unless W. B. Hibbs & Company may properly be considered as a firm of private bankers within the meaning of the provisions of Section 8 of the Clayton Act. The Board has not attempted to pass definitely upon this phase of the matter although on the basis of the information which has been submitted there appears to be considerable doubt that W. B. Hibbs & Company may properly be considered as a firm of private bankers within the meaning of those provisions.

"In the event that you desire to submit further facts or arguments in support of your application, the Board is prepared to give them careful consideration. However, any such additional facts or arguments should be submitted as promptly as possible, in writing, through the Federal Reserve Agent at the Federal Reserve Bank of Richmond."

Approved.

Letter dated May 12, 1934, approved by six members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, stating that the Board has given consideration to the following application for a permit under the Clayton Act, and that, upon the basis of the information before it, the Board feels that the issuance of the permit applied for would be incompatible with the public interest. The letter also requested the agent to communicate to the applicant the Board's position in the matter, and to advise the Board promptly as to whether the applicant desires to submit any additional data, and, if not, as to what steps he proposes to take in order to comply with the provisions of the Clayton Act:

Mr. George G. Thorp, for permission to serve at the same time as a director of The First National Bank of Chicago, Chicago, Illinois, and as a director of The Gary State Bank, Gary, Indiana.

Approved.

Letters dated May 12, 1934, approved by six members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. William H. Matthai, for permission to serve at the same time as a director of the Baltimore branch of the Federal Reserve Bank of Richmond, Baltimore, Maryland, and as a director of the Morris Plan Bank of Baltimore, Baltimore, Maryland.

Mr. Thomas E. Donnelley, for permission to serve at the same time as a director of The First National Bank of Lake Forest, Lake Forest, Illinois, and as a director of the Personal Loan & Savings Bank, Chicago, Illinois.

Mr. John C. Fischer, for permission to serve at the same time as a director and officer of the First National Bank in Glen Ullin, Glen Ullin, North Dakota, and as a director of The First National Bank of Hebron, Hebron, North Dakota.

Mr. E. W. Kane, for permission to serve at the same time as a director and officer of The Worthington National Bank, Worthington, Minnesota, and as a director of The First National Bank of Brewster, Brewster, Minnesota.

Mr. L. L. Olson, for permission to serve at the same time as a director and officer of The First National Bank of Barnesville, Barnesville, Minnesota, and as a director and officer of the Kent State Bank, Kent, Minnesota.

Mr. Albert Westrup, for permission to serve at the same time as a director and officer of The Buffalo National Bank, Buffalo, Minnesota, and as a director and officer of The Security State Bank, Maple Lake, Minnesota.

Mr. R. C. Guinn, for permission to serve at the same time as a director of The Central National Bank of Carthage, Carthage, Missouri, and as a director of the Webb City Bank, Webb City, Missouri.

Mr. H. G. Pratt, for permission to serve at the same time as a director and officer of The Hastings National Bank, Hastings, Nebraska, and as a director and officer of the State Bank of Juniata, Juniata, Nebraska.

Mr. Geo. Sullivan, for permission to serve at the same time as a director and officer of The First National Bank of Overbrook, Overbrook, Kansas, and as a director of The Richland State Bank, Richland, Kansas.

Approved.

Consideration was then given to a draft of a proposed letter to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, referring to the application of Mr. Sydney M. Shoenberg under section 32 of the Banking Act of 1933 for a permit to act at the same time as a dealer in securities in his individual capacity under the name of Sydney M. Shoenberg and Company, and as a director of the First National Bank, both in St. Louis, Missouri, and stating that, from the information contained in the application, it appears that Mr. Shoenberg is not an "officer, director, or manager of any corporation, partnership, or unincorporated association" engaged in the business of purchasing, selling, or negotiating securities, and that, on the basis of a previous ruling of the Board, section 32 is inapplicable to the relationship described in the application. Mr. Thomas said that he had requested that the question raised in the letter be considered by the Board for the reason that, if Mr. Shoenberg were an officer or manager of a partnership engaged primarily in purchasing, selling, or negotiating securities, section 32 would be held applicable to him, but that, inasmuch as he owns and operates the securities company in his individual capacity, the section is held to be inapplicable. He stated that, in his opinion,

it is inconceivable that Congress should have intended such a result.

Mr. Wyatt stated that the Board's ruling is the result of the manner in which the statute is worded, and is the only logical interpretation that can be given to the statute.

Mr. James moved that Counsel be requested to prepare, for the consideration of the Board, drafts of letters to the chairmen of the Committees on Banking and Currency of the Senate and the House of Representatives recommending an amendment to section 32 of the Banking Act of 1933 so as to make the interlocking directorate provision applicable to an individual engaged primarily in the business of purchasing, selling, or negotiating securities in his individual capacity, and that, pending consideration by Congress of the proposed amendment, the Board defer action on all applications by individual dealers in securities for permits to serve as directors under section 32 of the Banking Act of 1933.

Carried.

There was presented a draft of a letter, previously circulated among the appointive members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of April 25, 1934, regarding the request of the Fall River Trust Company, Fall River, Massachusetts, for cancelation of condition of membership numbered 21 which reads as follows:

'Within six months from date of admission to membership, such bank shall cause the removal from its banking quarters of the offices of the cooperative bank now located therein.'

"The bank was admitted to membership on December 29, 1933, but had, prior to that time, requested that condition numbered 21 be waived.

"The Board believes that it is not a desirable situation when the quarters of a bank are shared by another institution. Even when the only connection between the institutions is that of landlord and tenant, the true relationship existing in

"so far as the public at large is concerned, is often unknown and confusing, and in the event of difficulties of either institution, the situation might result in serious embarrassment to both. After careful consideration of the matter, the Board feels that it would not be justified in this case in making an exception to its general policy in connection with the conditions prescribed for admission to membership in the System, and, therefore, the request of the Fall River Trust Company for cancelation of condition numbered 21 is denied.

"In view of all the circumstances, however, the Board grants an extension of time to December 29, 1934, within which the Fall River Trust Company may comply with the requirements of condition numbered 21 and you are requested to advise the bank accordingly."

There was also presented a draft of a letter, previously circulated among the appointive members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to Mr. Fry's letter of April 26, 1934 regarding the request of the Citizens Bank and Trust Company, Concord, North Carolina, for cancellation of condition of membership 22 which reads as follows:

> 'Within six months from the date of its admission to membership such bank shall require that the offices of the building and loan association now located in the banking quarters of such bank be removed therefrom.'

"The bank was admitted to membership on November 17, 1933. Prior to that time, however, the bank had requested that condition numbered 22 be waived and on December 11, 1933 Mr. Fry informed the Federal Reserve Board that the bank had been requested to bring this matter to the attention of the Reserve Bank some time after the first of the new year, at which time the executive committee of the Reserve Bank would submit the request with a recommendation to the Federal Reserve Board.

"The Board believes that it is not a desirable situation when the quarters of a bank are shared by another institution. Even when the only connection between the institutions is that of landlord and tenant, the true relationship, insofar as the public at large is concerned, is often unknown and confusing, and in the event of difficulties of either institution, the situation might result in serious embarrassment to both. The Board has considered the argument of the Citizens Bank and Trust Company that it would be unfair to require the removal of the building and loan association from the quarters of that bank when building and loan associations are permitted to remain

"in the banking quarters of the two other banks in Concord. The Board has no control over the operations of the other banks in Concord, while it has a responsibility regarding admission of State banks to membership in the System. After careful consideration of the matter the Board feels that it would not be justified in this case in making an exception to its general policy in connection with the conditions prescribed for admission to membership in the System, and, therefore, the request of the bank for cancellation of condition numbered 22 is denied.

"In view of all of the circumstances, however, the Board grants an extension of time to November 17, 1934 within which the Citizens Bank and Trust Company may comply with the requirements of condition numbered 22, and you are requested to advise the bank accordingly."

Mr. Hamlin stated he had requested that these letters be discussed by the Board for the reason that, although he is in agreement fully with the position taken by the Board that it is not desirable for a member bank to share its banking quarters with another institution, he felt that the matter should be carefully considered as the Board had previously approved the application of the New Britain Trust Company, New Britain, Connecticut, which has a savings bank in its banking room, and he understood that a national bank in Providence, Rhode Island, is operating in the same banking rooms as the Rhode Island Hospital Trust Company. Attention was also called to the fact that a national bank and a nonmember State bank in Concord, North Carolina, have building and loan associations in their banking rooms.

The ensuing discussion developed the opinion that the present position of the Board is the proper one, and that, rather than make exceptions thereto, the rule should be applied uniformly to all banks.

At the conclusion of the discussion, Mr. James moved that Counsel be requested

to prepare, for consideration of the Board, drafts of letters to the Banking and Currency Committees of the Senate and House of Representatives recommending the passage of legislation which would prohibit the maintenance, in the banking quarters of member banks and of banks whose deposits are insured by the Federal Deposit Insurance Corporation, of the offices of other banks or other institutions such as building and loan associations, etc.

Carried, and the letters to Messrs. Curtiss and Hoxton referred to above were approved.

There was presented also a draft of a letter to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, which had been circulated previously among the appointive members of the Board, reading as follows:

"This refers to your telegram of February 23, 1934, and to the letter of February 28, 1934, from your Counsel, Mr. Wallace, with regard to the question whether the State Planters Bank and Trust Company, a member bank of the Federal Reserve System, may lawfully acquire bonds of an affiliate in exchange for real estate when, as a result of the transaction, the holdings of the bank will exceed the limitations prescribed in Section 23A of the Federal Reserve Act.

"It appears that the State Planters Bank and Trust Company some years ago assumed the liabilities of another bank and purchased its assets, including certain real estate. The real estate thus acquired has been rented but the yield is small in relation to the book value. The State Planters Bank and Trust Company several years ago organized the Richmond Mortgage and Loan Corporation under the laws of Virginia and it is understood that the entire capital of the corporation is owned by the State Planters Bank and Trust Company. The corporation formerly made loans upon real estate and sold its collateral trust bonds or debentures, which were the direct obligations of the corporation and were secured by the deposit of notes which were in turn secured by mortgages or deeds of trust. It is understood that the corporation is now transacting no new business and is endeavoring to liquidate its affairs and its outstanding indebtedness, but has not technically been placed in liquidation. A person holding certain bonds of the corporation has offered to exchange these bonds for the real estate in question and to pay to the

"State Planters Bank and Trust Company a certain additional amount in cash. The transaction is considered desirable from the standpoint of the member bank; but, if carried out, will result in its holdings exceeding the limitations prescribed in Section 23A of the Federal Reserve Act.

"The question whether in the circumstances described an exchange of real estate should be considered an investment of funds by the member bank within the meaning of clause numbered (2) of the first paragraph of Section 23A of the Federal Reserve Act is a close and doubtful one and the Federal Reserve Board will not at this time undertake to express an opinion as to the interpretation which should be placed on the statute in this regard. However, inasmuch as it appears in this case that the member bank proposes to dispose of unprofitable real estate which was acquired some years ago and that the transaction will be carried out in good faith for this purpose, and in view of the other information which you have furnished in this connection, the Federal Reserve Board will offer no objection in the peculiar circumstances of this case to the proposed exchange of real estate by the State Planters Bank and Trust Company for bonds of its affiliate as above outlined upon condition that the bank advise you in writing before the consummation of the transaction that it will avail itself of the first opportunity which may occur for the disposition on a reasonable basis of the bonds of the affiliated corporation so acquired. It should be understood that the Board's position in this matter is based entirely upon the circumstances of this particular case and its action herein is not to be regarded as a precedent for any other case in which a similar question arising under Section 23A of the Federal Reserve Act may be involved."

Upon motion by Mr. James, the letter was approved.

Attention was then directed to a memorandum dated May 4, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, copies of which had been furnished to the members of the Board, transmitting a memorandum of the same date from Mr. Woodlief Thomas of the Division of Research and Statistics, which suggested that, for the reasons stated in the memorandum, the Board consider a reduction in the maximum rate of interest prescribed in Regulation Q that may be paid by member

banks on time and savings deposits. Mr. Goldenweiser stated that he had submitted the memorandum to the Board for consideration only, that he had not made up his mind as to whether a reduction should be made, and that he felt no change in the interest rate should be made by the Board without a complete investigation of the desirability of such action.

Upon motion by Mr. James, it was voted to make no change in the maximum interest rate of 3% per annum on time and savings deposits, prescribed in the Board's Regulation Q.

Reference was made to a letter addressed to Governor Black by Governor Calkins of the Federal Reserve Bank of San Francisco under date of May 2, 1934, which had been circulated previously among the appointive members of the Board, stating that officers of the Bishop National Bank and the Bank of Hawaii, both of Honolulu, were in San Francisco investigating the question of membership in the Federal Reserve System; that Governor Calkins had discussed the matter with them; and that he would appreciate wire advice from the Board as to (a) the admission to membership of the banks referred to, and (b) the establishment in connection therewith of a currency depot in Honolulu in which from $2,500,000 to $5,000,000 would be deposited. It was suggested that a telegram be sent to Governor Calkins stating that the Board has given careful consideration to the matter referred to in his letter, but before taking action thereon requests that the board of directors of the Federal Reserve Bank of San Francisco consider the matter carefully and submit a recommendation to the Board thereon, together with the recommendation of Governor Calkins and that of Mr.

Newton, Federal Reserve Agent; and that the Board also desires an estimate as to the cost of maintaining a currency depot in Honolulu and any other information which Governor Calkins feels would be helpful in enabling the Board to reach a decision in the matter.

Upon motion by Mr. Hamlin, the Secretary was requested to address a telegram to Governor Calkins in accordance with the above suggestion.

Governor Black presented a letter dated May 11, 1934, from Mr. J. E. Crane, Deputy Governor of the Federal Reserve Bank of New York, referring to recent correspondence with the Board in regard to the earmarking of gold for the Banco Central de Guatemala, and stating that the bank had written the Federal Reserve Bank of New York expressing a desire to open an account on the books of the New York bank, and that at the meeting of the board of directors on May 10, 1934, the officers were authorized subject to the approval of the Federal Reserve Board, to open and maintain an account on the books of the Federal Reserve Bank of New York in the name of the Banco Central de Guatemala and to carry out operations in this market for that bank along substantially the same general lines and subject to substantially the same terms and conditions as for other foreign central banks having accounts with the New York bank. The letter also contained information with regard to the organization and powers of the Banco Central de Guatemala and stated that, if the opening of the account be approved, the New York bank will offer participation in the account to the other Federal reserve banks as had been done in like instances in the past.

After discussion, in which it was noted that the action taken by the directors limits the relations to be established with the Banco

Central de Guatemala to the opening of a one-way account, the Secretary was requested to advise Mr. Crane that the Board approves the action of the directors in authorizing the opening of the account, and to advise the other Federal reserve banks that the Board approves participation by them in the account, if and when opened, in the event they desire to do so.

At this point Mr. O'Connor, Comptroller of the Currency, Mr. Awalt, Deputy Comptroller of the Currency, and Mr. McGrath, Assistant Counsel in the Insolvent Banks Division of the Comptroller's office, joined the meeting.

Governor Black presented a letter addressed to him under date of May 2, 1934, by Mr. Harold L. Ickes, Federal Emergency Administrator of Public Works, stating that his office had made arrangements with the office of the Comptroller of the Currency to furnish for the confidential and private use of the Public Works Administration, as calls are made, photostat copies of reports of condition of national banks in which funds are deposited by borrowers from the Public Works Administration; that it is his desire to make the same arrangement with the Federal Reserve System to furnish the Public Works Administration, as calls are made, with reports of condition of State member banks; and that the arrangement with the Comptroller's office is that the Administration will reimburse the Comptroller for the actual cost of making up the photostat copies.

Mr. Morrill stated that he had talked with Mr. Awalt, Deputy Comptroller of the Currency, concerning this matter, and that Mr. Awalt had advised him that the Comptroller's office does not furnish the

Public Works Administration with the entire reports of condition of national banks, but that only the first page of each report is being furnished, and that the information contained on this page is required under the law to be published and, therefore, is not confidential. He also stated that it appeared that the Public Works Administration desired to obtain the same information in the case of State member banks but that such banks are not required to publish their condition reports made on call of the Board; that such reports are regarded by the Federal reserve banks and the Board as confidential and that, therefore, the suggestion had been made that the Board obtain the permission of State member banks before such information be given to the Public Works Administration.

Governor Black suggested that Mr. Ickes be advised that, while it is the practice of the Federal Reserve Board to issue calls for reports of condition of State member banks simultaneously with the calls issued by the Comptroller of the Currency for reports of condition of national banks, there is no requirement of law that these reports be published, and they are regarded by the Federal reserve banks and the Federal Reserve Board as confidential; that the Board will be glad to cooperate in an effort to make the desired information as to State member banks available; and that if the Public Works Administration will forward to the Board a list of the State member banks in which funds of borrowers from the Public Works Administration are deposited, the Board will address letters to the banks requesting authority to furnish the information from the call reports submitted by them.

The Governor was requested to address a letter to Mr. Ickes in accordance with the above suggestion.

Governor Black referred to the Board's telegram of April 28, 1934, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, copies of which were sent to all Federal reserve banks, in which the ruling was made that State member banks are prohibited by the provisions of section 5136 of the Revised Statutes, which is made applicable to State member banks by section 9 of the Federal Reserve Act, as amended, from purchasing stocks upon order and for account of their customers. He stated that he had given the ruling a great deal of consideration, had discussed it with Messrs. Wyatt and Vest of Counsel's office, and with Mr. O'Connor, Comptroller of the Currency, and Mr. Awalt, Deputy Comptroller of the Currency, and had reached the conclusion that the ruling is incorrect and that the Board should reconsider the matter and rule that member banks are not prohibited by the provisions of law above referred to from purchasing corporate stocks solely upon the order and for the account of customers. Governor Black also said that Mr. Robert V. Fleming, Vice President of the American Bankers Association had called on him and advised that he had received telephone calls from various parts of the country indicating that the member banks feel it would be extremely detrimental to the banks if the Board's present ruling is put into effect. He also read a letter received from Mr. James H. Perkins, Chairman of the Board of the National City Bank of New York, New York, as to the possible adverse effects of the present ruling.

Mr. O'Connor stated that the same question as regards national

banks had been given very careful consideration in his office following the passage of the Banking Act of 1933, and the conclusion reached that purchases of stock by national banks for the account of customers is prohibited by section 5136, of the Revised Statutes and that, on the basis of that position, his office had submitted to Congress a draft of amendment which would amend section 5136 by striking out the words "investment securities" in the first line of the second sentence of the seventh paragraph of the section and inserting in lieu thereof the words "stocks, bonds, or securities", which would clearly authorize member banks to buy and sell corporate stocks for the account of their customers. Mr. O'Connor also said that the annual report of the office of the Comptroller of the Currency covering activities for the year ending October 31, 1933, contains the statement that it would appear from the language of the seventh paragraph of section 5136 that a national bank is prohibited from performing the service of purchasing or selling corporate stocks for the account of one of its customers, and that his office had made the same reply to a number of inquiries received from national banks.

A general discussion ensued during which it was pointed out that the second sentence of the seventh paragraph of section 5136 provides that the business of dealing in investment securities by a national bank shall be limited to purchasing and selling such securities without recourse solely upon the order and for the account of customers and in no case for its own account, and that the definition of investment securities as contained in the paragraph refers to marketable obligations

evidencing indebtedness and not to corporate stocks. Mr. Awalt stated that prior to the amendment to section 5136 by section 16 of the Banking Act of 1933, the Comptroller's office had taken the position that national banks did have the right to buy corporate stocks for customers, but that it was felt that inasmuch as the section as amended stated expressly the types of securities which could be purchased by national banks for their customers, which did not include corporate stocks, it was felt that such purchases for account of customers were prohibited, but that such prohibition did not take effect until June 16, 1934.

The discussion brought out the feeling of the members of the Board that, in view of the hardship which would apparently result to member banks from the ruling, it would be preferable for the Board and the Comptroller of the Currency to reverse their rulings pending a clarification of the statute by Congress. Mr. O'Connor stated that it was his opinion that, on the basis of the present law, the ruling of his office was the correct one and that, as he had taken the position that an amendment to the law was necessary and had recommended to Congress the passage of such an amendment, he did not see how his office could take a contrary position, but that as the suggested amendment is in the hands of the committees of Congress it is possible that it may be passed at the present session.

Mr. Wyatt stated that, in submitting to the Board with his approval the ruling recently made by the Board on this subject, he had been influenced largely by the facts that, (1) it was in accordance with the position taken by the Comptroller of the Currency in his annual report and in several letters written to individual banks; (2) the purpose

of the provision of Section 9 of the Federal Reserve Act on this subject is to place national banks and State banks on a basis of equality with respect to dealings in securities; and (3) this purpose would be effectuated by having the Board and the Comptroller take the same position on this subject. Mr. Wyatt stated that, upon further consideration, however, he had reached the conclusion that the rulings previously made on this subject were incorrect; because, (1) the sentence in Section 5136 commencing with the words, "The business of dealing in investment securities", affects only "investment securities" as defined elsewhere in the section so as not to include stocks and, therefore, this sentence has no effect whatever on the right of national banks to purchase stocks for the account of their customers; (2) the sentence, "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association of any shares of stock of any corporation", applies only to purchases of stock by the bank for its own account and does not forbid the purchase of stocks for the account of customers, the Board having construed the word "purchase" as used in Section 32 of the Banking Act of 1933 as not applying to brokers who purchase stock only for the account of their customers; and (3) therefore, the amendments to Section 5136 contained in the Banking Act of 1933 do not affect the right of national banks to purchase stocks on order and for the account of their customers. Mr. Wyatt further stated that, since they are not specifically authorized to purchase stocks for their customers, the question whether national banks have such authority irrespective of the amendments contained in the Banking Act of 1933 might be considered a doubtful question; but he was of the opinion that the Board could properly rule

that, if the charter powers granted by the various States to State member banks are broad enough to permit such banks to purchase corporate stocks for their customers, there is nothing in Section 9 of the Federal Reserve Act, when read in connection with Section 5136 of the Revised Statutes, which would prevent them from doing so.

At the conclusion of the discussion, Mr. Hamlin moved that the Board reconsider its action in approving the ruling contained in its telegram of April 28, 1934, to Mr. Newton.

Carried, Mr. O'Connor voting "no".

Mr. Szymczak moved that Counsel be requested to prepare a telegram to be dispatched immediately to the Federal reserve agents at all Federal reserve banks advising that the Board had taken the position that State member banks are not prohibited from purchasing corporate stocks solely upon the order and for the account of customers but not for their own account.

Carried, Mr. O'Connor voting "no".

Mr. O'Connor stated that one of the provisions of the Banking Act of 1933 eliminated the double liability on stock of national banks issued after June 16, 1933; that, in his opinion, the provision was a wise and equitable one in view of all the existing circumstances, but that the national banking system had been weakened thereby inasmuch as none of the stock of national banks issued since June 16, 1933, provides that additional protection to depositors. He stated that he felt the benefits of the amendment could be retained and the national banks protected by an amendment to the law which would permit the Comptroller of the Currency to require each bank chartered in the future to add to its surplus from earnings until the surplus equals the bank's capital. This would have the advantage, he stated, of gradually building up the capital account in times of prosperity

which would be much more desirable than the practice in the past of relying on the double liability of stockholders which was attempted to be realized upon largely in time of financial difficulty. Mr. O'Connor added that he felt it is desirable that the amendment be passed at the present time in order that it could be applied to the large number of banks which it is contemplated will be organized in the future. Mr. Awalt advised the Board that a bill has been introduced in Congress by Senator McAdoo to remove the double liability on the stock of all national banks and that in reporting on the bill the office of the Comptroller of the Currency had stated that it would interpose no objection to the bill if national banks were required also to transfer to surplus before payment of dividends 10% of their earnings until the surplus account is equal to 100% of the banks' capital. After a discussion of the proportion of the earnings of a bank which might be required by the proposed amendment to be credited to surplus each year, Mr. O'Connor stated that he would appreciate it if the members of the Board would consider the amendment and give him the benefit of their suggestions with regard thereto.

Messrs. Awalt and McGrath then left the meeting.

Governor Black stated that the special order of business for this meeting was the consideration of the Annual Report of the Federal Reserve Board for the year 1933, but he suggested that, inasmuch as Mr. Miller is confined to his home by illness, action on the report be deferred for a meeting of the Board later in the week at which Mr. Miller is in attendance.

Certain phases of the draft of the Annual Report were discussed briefly, but action on the report was deferred in accordance with Governor Black's suggestion.

There were then presented the following applications for original stock of Federal reserve banks:

Applications for ORIGINAL Stock:	Shares	
District No. 2.		
First National Bank in Carteret, Carteret, New Jersey	72	72
District No. 6.		
First National Bank in Tuscumbia, Tuscumbia, Alabama	36	36
District No. 7.		
Aurora National Bank, Aurora, Illinois	116	116
	Total	224

Approved.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

E R Black
Governor.