

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on June 9, 1934, at 10:30 a. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. Miller
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Paulger, Chief of the Division of
Examinations
Mr. Leonard, Federal Reserve Examiner
Mr. Vest, Assistant Counsel
Mr. Wingfield, Assistant Counsel
Mr. Chase, Assistant Counsel
Mr. Williams, Assistant Counsel

Governor Black presented a memorandum prepared at his request under date of June 6, 1934, by Mr. Paulger, Chief of the Division of Examinations, with regard to the examination department of the Federal Reserve Bank of New York. The memorandum, which was read, set forth the action which it is believed is necessary to bring the department up to the desired efficiency and referred to the comments on the department contained in the reports of the last two examinations of the bank. The memorandum also referred to the statement made by Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, at the meeting of the Board on May 29, 1934, that within a short time he expected to submit recommendations to the Board regarding the strengthening of the examination department of the bank, and it was stated that no such recommendations had as yet been received.

Mr. Miller stated that the condition of the examination department of the Federal Reserve Bank of New York presents to the Board again the question as to its responsibility in obtaining satisfactory examina-

6/9/34

-2-

tions of member banks and he reviewed briefly the consideration which had been given by the Board to this matter since 1926. He stated that he felt the matter should be thoroughly reviewed by the Board with a view to determining what its policy as to examinations will be and that, while he felt the Federal reserve banks should be as independent as possible, he was of the opinion that, in order to obtain a satisfactory solution of the problem of examinations, a plan should be worked out under which the Board would have more effective supervision and control over the bank examination function of the various Federal reserve banks and so that the separate organizations of the Federal reserve banks may be considered as units in a larger organization and as units that are capable of being joined and coordinated whenever necessary in order that examiners may be available to make an independent examination of any member bank.

After discussion, action was deferred pending discussion at a meeting of the Board next week when the other members of the Board are present.

Governor Black reported that he had talked with Senators Glass, Townsend, Walcott, Barkley and Wagner, who are the Senate conferees on the industrial credit bill, which is now in conference, and that the first three named advised that they would only agree to the bill in the form in which it passed the Senate, which statement, Governor Black said, he interpreted to mean that unless the Senate bill is approved, the bill that is passed will contain no provision for loans to industry by Federal reserve banks. Governor Black added that copies of the statement with regard to the bill, which he had prepared for the conference committee, and which had been approved by the individual members of the Board, had been submitted to

6/9/34

Senator Glass with the request that he deliver copies to both the House and Senate conferees. The statement referred to by Governor Black read as follows:

"A study of the commercial and industrial situation has disclosed that there exists throughout the United States a real need for credit in the form of working capital for the smaller commercial and industrial concerns.

"This need became so apparent during the early part of this year that the financial agencies of the Government were asked by the President to cooperatively consider the question and determine, first, whether there existed such real need, and second, if such need existed what agency of the Government could best be used to meet the need.

"In response to this Presidential request representatives of the Treasury, the Reconstruction Finance Corporation, the Deposit Insurance Corporation, the Budget, the Federal Farm Administration, the Home Owners Loan Corporation and the Reserve Board considered the matter and determined first, that the need existed, and second, that such need could best be met through the Federal Reserve Banks by reason of their location and credit facilities.

"This finding was reported to the President and approved by him and the Treasury and the Federal Reserve Board were instructed to prepare a plan to achieve the end desired. This plan was embraced in the original bill for twelve intermediate Credit Banks, which bill was transmitted with his approval by the President to Chairman Fletcher and Chairman Steagall.

"Upon consideration of this first bill the Senate Committee gave its approval to a substitute bill introduced by Senator Glass, which substitute bill had the approval of the Administration and the Federal Reserve Board. This substitute bill known as Senate Bill 3487 passed the Senate on May 10, 1934, as amended.

"The need which this bill met was the need of smaller industries for 'working capital,' which may well be defined as 'a revolving fund of liquid capital to be used in the transaction of a commercial or industrial business and to serve as a basis for additional credit to be extended by commercial banks but not as capital to be invested in fixed investments such as land, buildings and permanent machinery.'

"The bill was intended to supplement the needs of commercial credit which would be supplied solvent concerns by the banks, and the capital needs which would be supplied either by investment of stockholders or the facilities of the long time capital market.

"A survey was made of the probable need in amount of such working capital for small industries. No survey and no estimate has been made of the probable or possible needs of such concerns for either commercial credit or capital investment.

"Senate Bill 3487 was based upon a survey of 5,000 banks and 1000 Chambers of Commerce of the probable needs of small industry

6/9/34

1730

-4-

"for working capital alone. This survey was made by the Treasury and the Reserve Board and its results given to the Senate and House Banking and Currency Committees. The Administration expressed its desire that loans for working capital should be made through the Reserve Banks under the plan embraced in S-3487, and later a willingness that such loans for working capital might be made through the Reconstruction Finance Corporation in those cases only where the Federal Reserve Banks declined to make them. In accord with this later expression S-3487 was amended by the Senate to provide such authority.

"S-3487 meets the need of smaller industries for working capital by providing:

"First, That the twelve Federal Reserve Banks in exceptional cases may make loans for working capital direct to the smaller industrialist

"(a) When such loans cannot be obtained from usual sources,

"(b) When the maturity of such loans does not exceed five

years.

"Second, That the Reserve Banks may purchase from or discount for any financial institutions such loans for working capital made by such financial institutions, or may make commitments to so purchase or discount such obligations, when such financial institution would either assume twenty per cent of any loss on such loans, or advance twenty per cent of such loans.

"Third, That such loans at any one time might be twice the present surplus of the Reserve Banks, which under the terms of the bill would be \$280,000,000. It was estimated that this sum, revolving as it would, would be required to meet and would meet this need of working capital for smaller industries.

"It was felt that the twelve Reserve Banks and their branches, together with their large credit information and facilities, could promptly meet this need and make these loans. It was intended that the smaller industrialist might go direct to the Reserve Banks, but it was felt that the banks themselves would engage largely in filling the needs in view of the power given to the Reserve Banks to make commitments to purchase the loans from the commercial banks, such plan giving the commercial banks the right to employ their funds until demand for commercial credit, or otherwise, was made upon them, when under such commitments they could transfer the loans to the Reserve Banks for any immediately needed funds.

"S-3487 next provided for an industrial committee in each Reserve Bank to consider these loans and aid the Reserve authorities in connection with them.

"Section 2 of S-3487 next provides that the Treasury shall purchase from the Reserve Banks their beneficial interest in \$139,000,000 of stock of the Federal Deposit Insurance Corporation, to enable the Reserve Banks to make these loans. This purchase is necessary if the Reserve Banks are to make these loans:

"First, because the Reserve Banks otherwise could not with their surplus meet the anticipated need.

6/9/34

-5-

"Second, because the Reserve Banks would be subject to most adverse criticism if they did not meet the need, or only met it in part.

"Third, because loans of this character to be helpful must necessarily be attended with certain risks to which the capital and surplus of Reserve Banks should not be subjected, unless additional funds are supplied to meet losses and in this way preserve the capital integrity of the System.

"The Reserve Banks were willing to undertake these loans if these additional funds were provided, but were unwilling to undertake them otherwise for the three reasons just stated.

"The Treasury was willing to purchase the beneficial interest in the Federal Deposit Insurance Corporation stock, first, because it cost the Reserve Banks \$139,000,000 and at present has that value; second, because it desired to place the Reserve Banks in position to make these loans, feeling as it did the urgent need of small industry for such working capital; third, because it was preferable for the Reserve Banks rather than the Government to make such loans.

"Sections 3 and 4 of S-3487 make certain provisions of the criminal law applicable.

"Section 5 provided that the Reserve Banks might be called upon to build a building for the Federal Reserve Board in Washington at their, and not the Government's, expense. The need of such building was made apparent by a recital of the present crowded condition of the Treasury Building and the necessity of renting approximately three floors of an office building for Board purposes.

"Sections 1, 2, 3 and 4 of S-3487 provided a plan for furnishing working capital to small industries which was approved by the President, the Secretary of the Treasury, the Director of the Budget, and every credit and financial agency of the Government. In the hearing before the Senate Banking and Currency Committee Section 5 was added, providing for a building in Washington for the Federal Reserve Board, to be paid for by the Reserve Banks and to be erected without expense to the Government. This amendment was specifically approved by the Secretary of the Treasury, who was familiar with the needs for such building.

"At the final hearing before the Committee the Chairman of the Reconstruction Finance Corporation expressed his full accord with the bill.

"In the Senate the bill was amended by Senator Barkley by adding Section 6, which gave authority to the Reconstruction Finance Corporation to make loans to industry 'for the purpose of maintaining and increasing the employment of labor' when credit 'is not otherwise available at banks or at the Federal Reserve Bank of the district in which the applicant is located.' These loans in the aggregate at any one time not to exceed \$250,000,000.

"This amendment was accepted as being in line with the Administration's desires and as an ultimate step in securing this aid to industry.

6/9/34

"The bill as amended was passed by the Senate on May 10, 1934, this bill having the approval of the President, all the Government agencies named and of the Senate, was transmitted to the House.

"Hearings were had by the House Banking and Currency Committee and practically the same information was furnished that Committee by the Governor of the Federal Reserve Board as to the needs sought to be met by the bill and the plan with its approvals.

"On May 23, 1934, the House passed its bill by amending S-3487 by striking all of the Senate Bill and inserting a bill with the following provisions:

"First, certain amendments to certain sections of the law empowering the Reconstruction Finance Corporation to make certain loans and extensions.

"Second, a certain amendment to the Reconstruction Finance Corporation Act by adding a new section to be known as Section 5-d of that Act. This section authorized the Reconstruction Finance Corporation 'for the purpose of maintaining and increasing the employment of labor when credit is not otherwise available at banks to make loans to any industrial or commercial business, including the fishing industry, established prior to July 1, 1934, these loans to be adequately secured, to be made directly or in cooperation with banks or other lending institutions, or by the purchase of participations, and to have a maturity not exceeding five years; to be made only when the borrower is solvent, and not to exceed at any one time outstanding \$300,000,000; the loan to any one borrower not to exceed \$100,000, and these loans to be made only until January 31, 1935.

"This new Section 5-d differed from the similar provisions in the Senate bill in two respects; first, in the amount of the aggregate of such loans being raised from \$250,000,000 to \$300,000,000, and second, that there was no provision in this amendment that the Reconstruction Finance Corporation should make such loans only if the loans could not be obtained at the Federal Reserve Banks. This condition was in the Senate bill, was the condition approved by the Administration as a condition precedent to the making of such loans by the Reconstruction Finance Corporation, and was intended first to have these loans made primarily and exclusively by the Reserve Banks if they could make them, and second to prevent two Government lending agencies filling the same need or competing with each other in filling the need.

"The house Bill then in Section 14 authorizes loans by the Reserve Banks to industry 'for the purpose of providing it with capital.' This section follows the similar section of the Senate bill authorizing such loans for 'working capital,' except that the limit of such loans shall be \$140,000,000 instead of \$280,000,000 as provided by the Senate bill, this authorized amount being cut in half by the omission of the House of that provision of the Senate bill authorizing the Secretary of the Treasury to acquire from the Reserve Banks the beneficial interest in the stock of the Federal Deposit Insurance Corporation of the value of \$140,000,000.

8/9/34

-7-

"With all respect to the action of the House it is suggested that under the provisions of its bill the original purpose to supply working capital to small industries cannot be fulfilled. The House bill authorizes loans to industry by the Reconstruction Finance Corporation only 'for the purpose of maintaining or increasing employment.' If it is needed for any other reason it cannot be supplied. No provision is made for the assumption of only a proportionate part of the loan by a bank, nor is there any provision that would enable a bank to obtain a commitment so that it could make the loan initially and when in need of funds sell it to the Reconstruction Finance Corporation. The short duration of the power to make such loans would make such commitment, if made, practically inoperative.

"Again, the power given to the Reserve Banks to make loans only 'for the purpose of providing a concern with capital' would preclude the Federal Reserve Banks from making 'working capital' loans. Capital, as used in the House bill, is a well recognized term. It means funds that are invested in the capital structure by partners or stockholders in a partnership or corporation respectively. It goes into land, buildings, fixed machinery, plant, or the corresponding features of a commercial business. It is not a loan - it is not intended to be paid back. It is an investment to be fixed for income purposes. It could not possibly be paid back out of profits in a five year period. No bank, and certainly not a Reserve Bank, could supply such permanent invested capital. It would pervert the function of any credit agency to supply such fixed investment.

"Capital for extension or improvement may be secured in the long term capital market, this term covering a period of years in which a portion of the profits may be amortized to repay such long term capital at maturity. No commercial bank, and certainly no Reserve Bank, could furnish such long term capital. Working capital only, which would be used only for a limited period and a limited purpose, could be supplied by the banks or the Reserve Banks. The history of this statute would disclose that such working capital was not intended to be and could not be loaned by the Reserve Banks under this House bill.

"It must be remembered in this connection that the House bill omits the provision of the Senate bill as to the purchase of the beneficial interest in \$140,000,000 of Federal Deposit Insurance Corporation stock. This omission and the limitation of loans for capital purposes only must result in two things: first, the prevention of providing working capital to small industries by the Reserve Banks, and second, the limitation of even capital loans to such amount as would prevent the Reserve Banks supplying the needs of industry.

"The right of the House to pass such statute as it approves is freely conceded. It is not intended in any way to criticize its judgment. We are endeavoring only to point out the effect of its bill upon the primary purpose of the proposed legislation to provide working capital for small industries.

"The Reserve Board has long felt the need of working capital for small industries. They have been willing to assume the responsibilities of this need if they were put in position to meet them.

6/9/34

-8-

"Under the Senate bill they can and will fully function. Under the House bill they cannot. They are willing to assume a responsibility if, in addition to their other large responsibilities, they can meet it.

"The House bill omits any reference to the provision in the Senate bill empowering the Reserve Board to assess the Reserve Banks for the cost of a building in Washington for the Reserve Board. We do not understand the reason for this omission and we refer to it primarily because of the urgent need for such a building. Up to the passage of the Banking Act of 1933 the Treasury was instructed to furnish quarters in the Treasury Building for Reserve Board purposes. This obligation was removed by the Banking Act of 1933. Nevertheless the Treasury has generously furnished the best quarters in the building to the Board, this generosity being limited only by the capacity of the building and the needs of the Treasury itself.

"The expanding needs of the Treasury call for more room. The expanding work of the Board has crowded our quarters in the Treasury Building and has made necessary the rental of practically three floors of the Shoreham office building. The additional work which will be put on the Board by the Exchange and Securities Act will call for more outside space. The departments of the Board are scattered and the best results cannot be obtained from a scattered force. The needs of the Treasury and of the Board both make necessary the procurement of a building for Board purposes. Since the Senate bill entailed no expenditure by the Government for this purpose it would seem that the accomplishment of this purpose would be readily approved by Congress.

"This memorandum is submitted only with the earnest purpose of emphasizing the need of industry for working capital and with the hope that Congressional action may be had that will insure that this need be met."

Governor Black also stated that in talking with each of the senators referred to above he had made the following suggestions to them:

"First, the approval by the Conference Committee of the Senate Bill which under its terms provides ample funds for working capital for small industries, this credit to be supplied first by the reserve banks and second by the Reconstruction Finance Corporation.

"Second, if the provisions of the Senate Bill are not substantially followed, then eliminate all provisions authorizing the reserve banks to supply such credit and remit to the Reconstruction Finance Corporation the task of protecting and conserving the needs of small industries for working capital.

"Third, approve the section of the Senate Bill which authorizes the erection by the Reserve System at its expense of a building in Washington for the Federal Reserve Board."

In connection with the above, Mr. Miller referred to the position

6/9/34

-9-

previously taken by the Board that it would be desirable to have credit of the kind referred to extended by only one agency of the Government, and he suggested that the Board reaffirm that position. Governor Black stated that Mr. Miller's suggestion is practically incorporated in the statement handed to Senator Glass, and Governor Black stated that he saw no reason why the Board should alter its position in that regard.

Governor Black then presented a letter addressed to him under date of June 5, 1934, by Governor Harrison of the Federal Reserve Bank of New York, inclosing a copy of a letter received by him under date of May 29, 1934, from Mr. Jackson E. Reynolds, President of the First National Bank of New York, stating that the First Security Company, an affiliate of the national bank, had within the past year been dissolved and its assets liquidated, that stockholders owning more than 98 1/2% of the stock of the bank had turned in their stock certificates (indorsed to show an interest in the First Security Company) and had received in turn certificates of stock of the bank bearing no such indorsement, that under section 18 of the Banking Act of 1933 the stock of a member bank may not represent the stock of any other corporation after June 16, 1934, and that it is expected that shortly after that date a dividend will be payable upon the stock of the national bank. Mr. Reynolds' letter requested that he be furnished with an opinion as to whether it would be lawful to make payment of the dividend to the bank's stockholders still holding indorsed bank stock certificates or whether such dividend should be withheld on the ground that, in ignoring the bank's request to turn in the indorsed certificates for the issue of unindorsed certificates, the holders are

6/9/34

-10-

either in violation of law or are at least making it impossible for the bank to comply with the law.

After discussion, counsel was requested to consider what action should be taken by the Board in connection with the letter.

There were then presented Clayton Act applications for permission to serve at the same time as officers and/or directors of two or more banks, filed by the following applicants:

Wilson H. Lee
John D. Cosgrove
R. M. Ransbottom

T. Frank Luby
J. W. Malone

After brief discussion, the applications were ordered circulated again for consideration at a meeting of the Board next week.

Governor Black then reviewed, for the information of the members present, the provisions of bill S.3748, entitled, "A bill to amend certain sections of the Banking Act of 1933 and the Federal Reserve Act, and for other purposes", which was reported by Senator Bulkley on behalf of the Committee on Banking and Currency of the Senate on June 6, 1934, and he called attention to the fact that Section 3 of the bill would amend Section 32 of the Banking Act of 1933 to read "From and after January 1, 1934, no officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, customarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall be at the same time an officer or director of any member bank, * * * ", whereas, Section 32, as originally enacted, provides that "From and after January 1,

6/9/34

-11-

1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, * * *. Governor Black said that he was of the opinion that the word "customarily" should not have been substituted for the word "primarily".

The Governor was authorized to send a letter to Senator Bulkley recommending that the bill be amended in accordance with the opinion expressed by Governor Black.

There was also considered a memorandum dated June 4, 1934, from the Division of Examinations, referring to the letter addressed to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, under date of May 29, 1934, which stated that, after careful consideration of all the facts involved in the application of the Farmers Deposit Trust Company, Pittsburgh, Pennsylvania, for membership in the Federal Reserve System, and in view of the character of the business of that institution, the Board does not feel that it can properly approve its application for admission to membership. The memorandum stated that, in view of the Board's action of May 31, 1934, regarding its policy in connection with applications of trust companies for membership, the application of the Farmers Deposit Trust Company is submitted to the Board for reconsideration, but that as the company does very little banking or trust business and as its principal function since its organization twenty years ago has been the holding of a majority block of the stock of the Reliance Life Insurance Company, which cannot be considered a proper function for a member bank of the Federal Reserve System, it is recommended that the Board's letter

6/9/34

-12-

of May 29, 1934, disapproving the application, be permitted to stand.

The recommendation of the Division of Examinations was approved.

Reference was made to a memorandum dated May 16, 1934, from Mr. Vest, Assistant Counsel, submitting a tentative draft of a proposed letter to the chairmen of all Federal reserve banks, relating to procedure with respect to examinations and reports of condition under Section 21 of the Banking Act of 1933, which provides that after June 16, 1934, it shall be unlawful for any person or organization engaged in the securities business to engage at the same time in the business of receiving deposits and also for any person or organization (other than financial institutions or private bankers subject to examination and regulation under State or Federal law) to engage in the business of receiving deposits unless such person, firm, corporation, association, business trust, or other similar organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal reserve bank of the district and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and with like effect and penalties as are now provided by law in respect of national banking associations transacting business in the same locality. The memorandum presented, for the Board's consideration, certain questions of policy in connection with the procedure to be followed, and suggested when these questions are determined the draft of letter, modified to conform to the Board's views, be submitted to the Comptroller of the Currency for his

6/9/34

consideration.

The questions raised in the memorandum were considered and Counsel was requested to discuss them with the Comptroller of the Currency. For the guidance of Counsel in the discussions of the matter with the Comptroller, the Executive Committee expressed itself as follows:

(1) If a person, firm, corporation, association, business trust, or other similar organization submits to examination by a Federal reserve bank, the reports of condition required by the statute should be submitted to the bank, and if the examination is to be made by the Comptroller of the Currency reports of condition should be submitted to that office;

(2) The Federal reserve banks and the Comptroller of the Currency should cooperate in taking affirmative steps to acquaint persons or organizations who may be affected, with the provisions of the law; and

(3) The question which authority should conduct the examination, where a person or organization offers to submit to examination either by a Federal reserve bank or the Comptroller of the Currency, should be discussed with the Comptroller of the Currency with a view to reaching a decision as to the desirable procedure.

There was then presented a memorandum dated May 25, 1934, from Mr. Vest, stating that, in connection with action upon applications for permits under Section 32 of the Banking Act of 1933, and Section 8A of the Clayton Act, the Board, in accordance with what is believed to be the intention of Congress, recently adopted certain policies which are believed to be of general interest, and that it is recommended that there be published in the June issue of the Federal Reserve Bulletin statements in the form attached to the memorandum relating to the position taken by the Board on the following subjects:

(1) Issuance of permits for interlocking directorates under Section 32 of Banking Act of 1933.

(2) Permits to act as correspondent bank under Section 32 of the Banking Act of 1933 in connection with securities

6/9/34

-14-

specifically excepted from restrictions of Section 5136 of the Revised Statutes.

(3) Applications under the Clayton Act involving interlocking relationships between national banks and organizations which carry margin accounts.

The memorandum had been circulated previously among the members of the Board and Mr. Vest's recommendation approved by all the appointive members of the Board except Mr. James, who had noted on the memorandum that he did not favor the publication of the statements referred to.

After discussion, it was voted to approve the publication of the statements in the June issue of the Federal Reserve Bulletin with the understanding that the matter would be brought to Mr. James' attention upon his return to Washington, so that, if he desired, he could record his vote on the question of publication.

Attention was called to the statement approved at the recent Federal Reserve Agents' Conference suggesting that the Federal Reserve Board urge the repeal of Section 31 of the Banking Act of 1933. It was pointed out that the bill (S.3025) providing for an extension of the temporary insurance provisions of Section 12B of the Federal Reserve Act, which is now in conference, contains a section which would amend Section 31 of the Banking Act of 1933 by repealing that provision of the section which relates to stock ownership by directors of member banks of the Federal Reserve System, and that, as this is the part of the section to which the Federal reserve agents' statement related, it would appear that no action need be taken by the Board in compliance with their suggestion.

In connection with the statement adopted by the Federal Reserve Agents' Conference suggesting that further consideration be given to the new basis for the computation of reserves of member banks recommended in

6/9/34

-15-

the report of the system committee on bank reserves, it was pointed out that Mr. Smead, Chief of the Division of Bank Operations, and Mr. Goldenweiser, Director of the Division of Research and Statistics, are making some further study of the matter and are obtaining current information for consideration in connection therewith, and that no action by the Board is necessary at this time.

There was then presented the resolution adopted at the recent Federal Reserve Agents' Conference with regard to the Postal Savings System.

The resolution was ordered circulated among the members of the Board for consideration at a meeting of the Board next week.

Consideration was also given to the following statement contained in the minutes of the recent conference of the Federal reserve agents:

"The Chairman referred to the appointment of a committee early last summer, at the request of the Federal Reserve Board, to prepare an explanatory pamphlet of the Federal Reserve System for distribution as requested to banks applying for membership and to the public.

"Such committee, consisting of representatives of several Federal reserve banks, met in Chicago and, after discussion of two or three days, prepared such a pamphlet, which was submitted to the Federal Reserve Board in July, 1933, for its approval.

"Since that time the committee has not been advised of such approval and, because a continuing demand exists for such a pamphlet, the matter is again brought to the attention of the Federal Reserve Board."

Mr. Morrill said that the pamphlet prepared by the agents' committee was referred to the Division of Research and Statistics for review, that the division had felt that because of many inaccuracies in it the pamphlet would have to be rewritten, but it was felt by some of the members of the Board's staff that in rewriting the pamphlet its original purpose had been lost sight of and that while the desirable procedure now would be to correct

6/9/34

-16-

the original pamphlet and bring it up to date, such a course had not been followed, because there appeared to be no one on the Board's staff who had time to undertake the work.

At the suggestion of Governor Black, it was decided to return the original pamphlet to the Division of Research and Statistics with the request that it be revised so as to remove any inaccuracies in the text and to bring it up to date, and that the revised pamphlet be reviewed by the Legal Division and submitted to the Board as promptly as possible.

Consideration was then given to a memorandum dated May 23, 1934, from Mr. Boatwright, Assistant Counsel, which had been circulated previously among the appointive members of the Board, submitting, in accordance with the action taken at the meeting of the Board on May 14, 1934, a draft of a bill to amend the Federal Reserve Act so as to prohibit any bank, banking association, or trust company, and any other organization or person engaged in the banking, building and loan, brokerage, securities, insurance, indemnity or trust business, or in the business of reviewing deposits, or engaged in issuing or selling notes or other evidences of indebtedness, from occupying any part of the quarters in which any of the business of a member bank or a bank whose deposits are insured under Section 12B of the Federal Reserve Act is conducted. The memorandum suggested, for the reasons stated therein, that the Board withhold any action in respect to recommending to Congress at this time the enactment of this amendment until after information in respect to such an amendment can be obtained from the Federal reserve banks and thorough consideration can be given to the practical problems involved and to the possible effects upon

6/9/34

-17-

the banks and other organizations which would be affected thereby.

The Division of Examinations was requested to prepare a draft of letter to the Federal reserve agents at all Federal reserve banks, requesting them to make an investigation in their respective districts as to the extent to which other organizations maintain offices in the banking quarters of member banks and banks whose deposits are insured, and what the effect would be on such organizations and the banks involved of the passage of the proposed amendment.

There was then presented a draft of a letter to the Comptroller of the Currency, reading as follows:

"Reference is made to Acting Comptroller Awalt's letter of May 28, 1934, recommending approval of a reduction in the common capital stock of 'The Seaboard-Citizens National Bank of Norfolk', Norfolk, Virginia, from \$2,000,000 to \$1,000,000, in accordance with a plan which provides for the sale of \$500,000 of preferred stock to the Reconstruction Finance Corporation and the use of the released capital to augment the bank's surplus, undivided profits and/or reserves.

"The plan under which the proposed reduction in capital is to be effected will result in a net reduction in the bank's capital of \$500,000 and the release of \$1,000,000 of stockholders' liability. While the adjusted capital and surplus of the bank would be in a satisfactory ratio to its deposit liability, if the large amount of trust business (\$65,000,000) handled by the bank is considered the present capital of the institution does not appear to be out of proportion to its volume of business.

"It is apparently intended to use \$500,000 of the released capital to increase the bank's surplus by that amount and to place the remaining \$500,000 in reserves and/or undivided profits. It has been noted from the report of examination that the bank has continued to pay dividends instead of conserving its earnings to provide for developing losses, and the proposed disposition of the released capital would enable the bank to distribute at least a part thereof to its stockholders in the form of dividends should it elect to do so.

"In view of the large volume of criticized assets in this institution, the extent of its commercial and fiduciary business, the question as to the advisability of the continuance of dividend payments, and the value of the stockholders' liability for the protection of the depositors, the Board is unwilling to approve the plan of capital adjustment as submitted.

"It is the view of the Board that a capital reduction of \$500,000, to be offset by the issuance of an equal amount of preferred stock, would be desirable and that such an adjustment would meet the present

6/9/34

-18-

"needs of this institution. It is felt, however, if a reduction of that amount is to be regarded favorably it should be provided that the entire amount of the reduction be applied to the elimination of the least desirable assets in the bank, or to the establishment of reserves against such undesirable assets, rather than to place any portion of the released capital in the bank's undivided profits account."

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

Consideration was given to a letter dated June 6, 1934, from Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, referring to applications under Section 32 of the Banking Act of 1933 of various officers and directors of the Harris Trust & Savings Bank, Chicago, Illinois, for permission to serve at the same time as officers and/or directors of The N. W. Harris Company, Chicago, Illinois, and stating that The N. W. Harris Company, after June 16, 1934, will no longer function as an investment organization but, beginning with that date, will be in liquidation, that, in order that the organization may be kept alive during liquidation, the company desires to have permits, under Section 32, for Messrs. Albert W. Harris, Chairman of the Board, Howard W. Fenton, President, and Frank McNair, Vice-President, of the Harris Trust and Savings Bank, to serve as sole directors in the liquidating corporation, that the company desires to withdraw the applications now on file with the Board of other directors and/or officers for permits to serve both institutions, and that it is recommended that the three permits be granted as requested. Attention was called to the fact that a permit has already been issued to Mr. Albert W. Harris, effective until June 16, 1934, authorizing him to serve the Harris Trust and Savings Bank and The N. W. Harris Company, and

6/9/34

-19-

that, while letters had been prepared to the other applicants granting similar permission to them, the letters had been held in Counsel's office for revision and had not been sent. Mr. Chase referred to the position previously taken by the Board that Section 32 is not applicable to a company which is in liquidation, if such liquidation involves merely the disposition of its assets and does not involve participation in any new business, and stated that, in his opinion, it would not be necessary for the Board to issue permits under Section 32 to Messrs. Harris, Fenton and McNair while The N. W. Harris Company is in the process of liquidation.

The issuance of permits to Messrs. Fenton and McNair, effective to June 16, 1934, was approved, and the Secretary was requested to advise Mr. Stevens that, as The N. W. Harris Company will be in liquidation after June 16, 1934, and will not participate in any new business, the Board is of the opinion that permits to serve the two institutions will not be necessary after that date.

The Board then considered and acted upon the following matters:

Memorandum dated June 7, 1934, from Mr. Paulger, Chief of the Division of Examinations, submitting the resignation of Mr. J. A. Bobb as an Assistant Federal Reserve Examiner, and a memorandum addressed to Mr. Paulger under date of June 2 by Mr. Drinnen, Federal Reserve Examiner, in regard to the situation leading up to Mr. Bobb's resignation. Mr. Paulger's memorandum recommended (1) that Mr. Bobb's resignation be accepted, effective as of June 30, 1934, (2) that he be granted leave from the date of the acceptance of his resignation until June 30, 1934, and (3) that he be permitted to return to his headquarters, Minneapolis, Minnesota, at the Board's expense, if he so desires.

Approved.

6/9/34

-20-

Letter dated June 8, 1934, approved by four members of the Board, to Mr. Maurice Newton, New York, New York, 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 Commercial National Bank and Trust Company of New York, New York, as a director of the Manufacturers Trust Company, New York, New York, and as a partner of Hallgarten & Co., New York, New York, 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. The letter stated also that the records of the Federal Reserve Board show that on November 7, 1928, Mr. Newton was granted a permit under the provisions of section 8 of the Clayton Act to serve at the same time as a director of the Commercial National Bank and Trust Company, as a director of the State Bank and Trust Company, and as a member of the private banking firm of Hallgarten and Company; that, in this connection, it is observed that the State Bank and Trust Company was subsequently merged into the Manufacturers Trust Company; that it is the view of the Federal Reserve Board that a permit issued pursuant to the provisions of section 8 of the Clayton Act does not render lawful a relationship which falls within the prohibitory provisions of section 32; and that, accordingly, the permit referred to above which was previously granted to Mr. Newton under the Clayton Act is not to be deemed as permitting the relationship to

6/9/34

-21-

which the letter refers as coming within the prohibition of section 32.

Approved.

Letter to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"There are inclosed copies of the Clayton Act permit issued by the Board to Mr. Orlando Preston of Denver, Colorado, covering his service as officer of The First National Bank of Denver, Denver, Colorado, and as director of The First National Bank of Salida, Salida, Colorado, for transmittal by you to Mr. Preston and the two banks, together with a copy for your files.

"In considering Mr. Preston's application it was noted that the condition and management of The First National Bank of Denver appeared to be satisfactory when the bank was examined July 17, 1933, but that, while Mr. Preston has been an officer in the bank since 1916, apparently no particular credit for its condition is due him since he is not a director and has five superior officers.

"On the other hand, the examiner reported that The First National Bank of Salida was probably hopelessly insolvent when examined as of February 22, 1934, and formal notice of impairment was sent to the bank on April 9, 1934. It appears that the bank had a possible deposit impairment of \$77,900, if doubtful assets and securities depreciation were taken into consideration and that the impairment would be approximately \$7,700 if depreciation in higher grade bonds and other items classified as doubtful were disregarded. The examiner stated that the bank was the only one now operating in the entire county and apparently still retained the confidence of the community even prior to obtaining the benefits of the deposit insurance. The examiner further stated that the management was weak and lacking in experience and ability and that he believed the president to be entirely incompetent to work out the existing situation. Although he has never been an active officer of the bank, it appears that Mr. Preston, because of his negligence, is responsible to a considerable degree for the condition of the bank. The examiner reported that his effort to have Director Preston present during the recent examination was, as usual, unsuccessful.

"The Board felt that it would be preferable to grant a permit to Mr. Preston in order to avoid any unnecessary misunderstanding by the community which might prove detrimental to the best interests of The First National Bank of Salida, but, in the circumstances, it suggests that you endeavor, in cooperation with the chief national bank examiner of your district, to bring about a strengthening of the management and a correction of the conditions which have given rise to the examiner's criticisms. The Board also suggests that, when you submit your recommendations as a result of your annual review of this

6/9/34

-22-

"permit, you report fully as to the progress made in bringing about an improvement in the management and condition of this bank."

Approved.

Letter to an applicant for a permit under the Clayton Act, advising of approval of his application as follows:

Mr. C. W. Stewart, for permission to serve at the same time as a director of The American National Bank of Union Springs, Union Springs, Alabama, and as a director and officer of The National Bank of Opelika, Opelika, Alabama.

Approved.

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

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u>		
Citizens National Bank of Berkeley Springs,		
Berkeley Springs, West Virginia	36	36
<u>Application for SURRENDER of Stock:</u>		
<u>District No. 3.</u>		
The Seven Valleys National Bank,		
Seven Valleys, Pennsylvania	27	27

Approved.

Thereupon the meeting adjourned.

Chesler Moriel
Secretary.

Approved:

E. R. Black
Governor.