

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Monday, June 11, 1934, at 4:00 p. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Martin, Assistant to the Governor

The Committee considered and acted upon the following matters:

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

"Receipt is acknowledged of Mr. Young's letter of June 6, 1934, together with its inclosures, and, in accordance with Mr. Young's recommendation, the Federal Reserve Board approves the permanent appointments as examiners and assistant examiners of the persons named therein whose temporary appointments as such had been previously approved by the Board. It is assumed, of course, that Mr. H. W. Sadler is making regular monthly payments on his indebtedness to the Aurora National Bank, Aurora, Illinois, in accordance with the agreement made with the conservator of that bank."

Approved.

Letter to the board of directors of the "Farmers Bank and Trust Company of Lancaster", Lancaster, Pennsylvania, stating that, subject to the conditions prescribed in the letter, and effective if and when such bank is duly authorized to commence business by the Secretary of Banking of the Commonwealth of Pennsylvania, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Philadelphia.

Approved.

Letter to the board of directors of the "Peninsula Bank and Trust Company", Williamsburg, Virginia, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for

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membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond.

Approved.

Letter to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to Mr. Sargent's letter of June 1, 1934, inclosing copy of a letter dated May 24, 1934, from the Security Bank of Myrtle Point, Myrtle Point, Oregon, which was admitted to membership on March 22, 1934, wherein the bank requests an extension of time in which it may comply with the provisions of conditions of membership numbered 17 and 18 which provide that:

17. Within three months from the date of its admission to membership, such bank shall reduce all loans which are in excess of the limits prescribed by the laws of the State of Oregon to amounts within such limits.
18. Within three months from date of its admission to membership, such bank shall dispose of any loans which may be secured in whole or in part by its own stock or obtain the substitution of other adequate security for each such loan.

"In view of all the circumstances and the recommendation of your office, the Board grants an extension of time to September 22, 1934, within which the Security Bank of Myrtle Point may comply with the conditions of membership numbered 17 and 18, and it is requested that you advise the bank accordingly."

Approved.

Letter to The Chase Bank, New York, New York, reading as follows:

"You are advised that the cost of the examination of the New York Office of the Chase Bank, made by an examiner of the Federal Reserve Board as of the close of business December 4, 1933, was \$110.18.

"You are requested to deposit this amount in the Federal Reserve Bank of New York, with instructions to that bank to credit it to the Federal Reserve Bank of Richmond for the account of the Federal Reserve Board."

Approved.

Letter to Mr. Peyton, Federal Reserve Agent at the Federal Reserve

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Bank of Minneapolis, reading as follows:

"Reference is made to your letter of May 28, 1934, transmitting the application of the 'Commercial Trust and Savings Bank', Mitchell, South Dakota, for permission to exercise trust powers, and to the previous correspondence in connection therewith.

"It is noted that this institution desires trust powers primarily for the purpose of relieving itself of criticism of its method of handling real estate mortgages in which it acts as trustee; that you feel that this criticism can be averted by the use of individual trusteeships instead of having the bank act in that capacity; that you do not regard the officials of the bank as competent to conduct a trust business, and that you do not believe that the volume of business available would justify a trust department or that it would be for the benefit of the bank or the community to actually develop a trust department in this institution.

"In accordance with your recommendation, the Board will take no action in regard to the unauthorized exercise of trust powers in the past by the applicant bank but will not authorize it to exercise such powers at this time. You are requested, therefore, to advise the Commercial Trust and Savings Bank, Mitchell, South Dakota, that the Board has denied its application.

"In this connection, it is assumed that you will follow up with the subject bank the question of handling its real estate mortgages in such manner as to avoid any further criticism relative to the unauthorized exercise of trust functions."

Approved.

Letter 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 Mechanics National Bank of Burlington', Burlington, New Jersey, from \$200,000 to \$100,000, pursuant to an amended plan which provides that the bank's capital shall be increased by \$125,000 of preferred stock to be sold to the Reconstruction Finance Corporation and others, and that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in your letter of June 1, 1934."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with Acting Comptroller Awalt's recommendation,

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"the Federal Reserve Board approves a reduction in the common capital stock of the 'Lyndora National Bank', Lyndora, Pennsylvania, from \$100,000 to \$75,000, pursuant to a plan which provides that the bank's capital shall be increased by \$25,000 of preferred stock to be sold locally, and that the released capital, together with a portion of the bank's surplus and undivided profits accounts, shall be used in eliminating losses and securities depreciation, all as set forth in Mr. Awalt's memorandum of May 28, 1934."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The National Bank of Middlesborough', Middlesboro, Kentucky, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$65,000 of preferred stock to be sold to local interests, and that the released capital, together with a portion of the bank's surplus, shall be used to eliminate substandard assets and depreciation in lower grade securities, all as set forth in Mr. Awalt's memorandum of May 28, 1934."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with Acting Comptroller Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Mount Pleasant', Mount Pleasant, Tennessee, from \$50,000 to \$40,000, pursuant to a plan which provides that the bank's capital shall be increased by \$10,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in Mr. Awalt's letter of May 25, 1934."

Approved.

Letter 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

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"Farmers National Bank of Knoxville', Knoxville, Illinois, from \$60,000 to \$30,000, pursuant to a plan which provides that the bank's capital shall be increased by \$30,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with part of the surplus and undivided profits, shall be used to eliminate unsatisfactory assets in the amount of approximately \$60,000, all as set forth in your memorandum of June 1, 1934."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with Acting Comptroller Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Litchfield', Litchfield, Illinois, from \$75,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$25,000 of preferred stock to the Reconstruction Finance Corporation and that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in Mr. Awalt's memorandum of May 24, 1934.

"In this connection, it appears that there may be some doubt as to the population of Litchfield. It is assumed, however, that your office has considered the legal capital requirements of the First National Bank of Litchfield and will not permit the bank to reduce its capital below the amount required by law for the formation of a national banking association in such city."

Approved.

Letter 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 Midland', Midland, South Dakota, from \$25,000 to \$20,000, pursuant to a plan which provides that the bank's capital shall be increased by \$30,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital together with \$3,750, which is to be raised locally, and a sufficient amount of the surplus and undivided profits shall be used to eliminate unsatisfactory assets of approximately \$16,716.52, all as set forth in your memorandum of June 1, 1934."

Approved.

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Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with Acting Comptroller Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Coleridge National Bank', Coleridge, Nebraska, from \$40,000 to \$20,000, pursuant to a plan which provides that the bank's capital shall be increased by \$30,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with a local contribution of \$7,500, shall be used to eliminate substandard assets, all as set forth in Mr. Awalt's memorandum of May 25, 1934.

"In considering the plan under which the proposed reduction is to be effected, it was noted that the aggregate amount of estimated losses and depreciation unprovided for will impair the bank's capital to the extent of approximately \$8,000, in addition to which there will also remain in the bank a large amount of assets classified as slow and doubtful by your examiner. It is assumed, however, that you have these conditions in mind and that whenever it becomes feasible to do so you will obtain such further corrections as may be practicable."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of a letter dated May 28, 1934 from Mr. E. H. Gough, Deputy Comptroller, advising that the report of examination of the First National Bank of Seattle, Seattle, Washington, made as at February 21, 1934 contains the following comment:

"The First National Company voted 17,261 shares of the bank's stock, at the annual shareholders' meeting January 9, 1934. No voting permit on file."

"Information received from your office indicates that 292,040 shares of the 400,000 outstanding shares of the subject bank were voted at the annual meeting of shareholders held on January 9, 1934. Since the number of shares voted by the First National Company was less than 50 per centum of the number of shares voted and since the company is not reported to otherwise control, in any manner, the election of a majority of the directors of the bank, it does not appear that the First National Company is a holding company affiliate of the First National Bank of Seattle, within the definition in Section 2 (c) of the Banking Act of 1933. Accordingly, the First National Company would not require a permit under the provisions of Section 5144, Revised Statutes, in order legally to vote the shares owned or controlled of the subject bank."

Approved.

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

"This refers to your letters of May 1, 1934, and May 21, 1934, which are in reply to the Board's letter of April 24, 1934, regarding the report of examination of the Federal Reserve Bank of Minneapolis as of January 20, 1934.

"It is noted that all leaves of absence in excess of thirty days because of illness are approved by your Executive Committee, and are placed in the minutes of the Committee which are read and acted upon as a whole by the board of directors of the bank at their next meeting. You request to be advised whether such procedure is in accordance with the Board's wishes or whether each leave of absence in excess of thirty days because of illness should be submitted to the board of directors for action as a separate item.

"The Board feels that the granting of such leaves is of sufficient importance to warrant the separate and individual consideration of the board of directors of the bank, and the instructions contained in the Board's letter of December 5, 1932 (X-7303) contemplated that this would be done. It is requested therefore that leaves of absence in excess of thirty days because of illness be treated in accordance with the Board's letter of December 5, 1932.

"The Board has noted your comments relative to the other matters mentioned in its letter of April 24, 1934."

Approved.

Letter to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to Mr. Sargent's letter of April 28, 1934, regarding the proper manner in which capital accounts of banks which have sold capital notes or debentures to the Reconstruction Finance Corporation should be reflected upon the books of such banks. It is understood that considerable confusion has arisen among member banks in the states of Washington and Utah, where supervising authorities require State banks to maintain the integrity of capital accounts as set forth in the articles of association of such banks, and that you have been requested to suggest the proper method of bookkeeping in such cases.

"While capital notes or debentures issued to the Reconstruction Finance Corporation are subordinate to the bank's liabilities to depositors and other creditors, they nevertheless represent an actual liability and should be shown as such on the bank's books and in all reports and published statements. Likewise, the par value of the common stock should be clearly shown on the bank's books and in all

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"reports and published statements. Moreover, as indicated in the Board's letter B-966 of March 17, 1934, a State bank member which has issued capital notes or debentures and whose capital stock consists of common stock should not show any surplus or undivided profits in condition reports on Form 105 so long as the net book value of capital notes or debentures and capital stock is less than the aggregate of (1) the amount at which the capital notes or debentures must be retired or to which the holders thereof are entitled in case of liquidation, and (2) the par value of the common stock.

"In the case cited by Mr. Sargent, the bank has common stock with a par value of \$60,000 and has sold capital debentures amounting to \$50,000 to the Reconstruction Finance Corporation, a total of \$110,000, while the book value of its assets amounts to only \$101,000 in excess of its liabilities exclusive of liabilities on account of capital debentures sold to the Reconstruction Finance Corporation and liabilities to stockholders. In the circumstances, if the bank does not reduce the par value of its common stock in order to provide for the elimination of losses, it will have to show an impairment in its capital account, if its books and reports are to correctly reflect its condition. In that event the bank's books should show the par value of the common stock outstanding, the retirable value of the capital debentures issued to the Reconstruction Finance Corporation, and a deficit in its undivided profits account. In this connection, your attention is directed to the manner in which provision is made for showing the capital accounts of State member banks in the Board's member bank condition report, Form 105, and it will be satisfactory to the Board if member banks will show their capital accounts in public statements in accordance with this form.

"In reports of earnings and dividends on Form 107, all losses and depreciation charged off should be included in the appropriate subdivisions of item 6, regardless of the source of the funds used to meet such charge-offs, and the 'Net addition to (or deduction from) profits for current period' as shown against item 7 in Section 1 should be carried forward into item 9 of Section 2. Only such credits to undivided profits should be shown in Section 2 of the report as are specifically enumerated under item 10 and, accordingly, the proceeds of capital notes or debentures sold by the bank should not, but reductions in capital stock not repaid to shareholders should, be shown as credits to undivided profits. If the total of undivided profits at the beginning of the period (item 8) plus net credits to undivided profits during the period (item 10 minus item 12) is not sufficient to meet any loss carried forward into item 9 of Section 2, the resulting deficit should be shown in red against item 13, and item 20 in Section 4 should be shown in agreement with the amount reported against item 13 in Section 2. In reports of condition on Form 105, any deficit in undivided profits account should, as indicated in the Board's letter B-966 of March 17, 1934, be deducted from the book value of surplus and/or the par or retirable value of capital stock and capital notes or debentures."

Approved.

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Letter to Mr. N. Penrose Hallowell, Boston, Massachusetts, reading as follows:

"Receipt is acknowledged of your letter of May 9, 1934, regarding your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of The Merchants National Bank of Boston, and as an officer of Lee Higginson Corporation, a dealer in securities, both of Boston, Massachusetts.

"You state in your letter that you are anxious to assure yourself that the unfavorable action of the Board upon your application was not induced by an impression that you were disqualified under Section 8A of the Clayton Act.

"The position taken by the Board in its letter to you in this matter was the same as that taken with respect to other applications in which similar circumstances were present and was adopted in order to give effect to the purposes which the Board believes that Congress had in mind in enacting Section 32. As stated in its previous letter, the Federal Reserve Board believes that it was the purpose of Congress in enacting the section to terminate relationships of the types described therein between member banks and dealers in securities; and, in view of the policy as thus declared by Congress in the law, it is the practice of the Board in cases of this kind not to issue permits authorizing relationships which fall within the intent of the prohibitions of Section 32. On the basis of the information before the Board, your interlocking relationship appears to be one which falls within both the literal terms of the statute and the purpose thereof. It is for this reason that the Board is unable to find that it would not be incompatible with the public interest to grant your application.

"The Board's position with regard to your application is based upon the provisions of Section 32 of the Banking Act of 1933 and not upon the provisions of Section 8A of the Clayton Act. The reference to Section 8A in the Board's previous letter was merely for the purpose of informing you concerning another provision which might or might not have had a bearing on your service to the two institutions.

"Your letter of May 9, 1934, states no facts which, in the judgment of the Board, would justify an exception in your case and the Board, therefore, denies your application. It will be appreciated if you will advise the Federal Reserve Agent at the Federal Reserve Bank of Boston of the action which you take in order to comply with the provisions of Section 32."

Approved.

Letter to Mr. Albert M. Keller, St. Louis, Missouri, reading as follows:

"The Federal Reserve Board has given consideration to your

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"application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of the Mercantile-Commerce Bank and Trust Company, as a director of Mercantile-Commerce National Bank in St. Louis, and as manager of Paul Brown and Company, all of St. Louis, Missouri.

"It appears from the information contained in your application that the business of Paul Brown and Company is confined to the purchase and sale of securities in the open market as brokers on the order and for the account of others. The Board has concluded that the provisions of Section 32 are not applicable to such a business, and for that reason no permit is necessary to bring your service to the three institutions named in your application into conformity with the provisions of Section 32.

"However, Section 8A of the Clayton Act makes it unlawful for any director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States to serve at the same time as a director, officer, or employee of any corporation (other than a mutual savings bank) or as a member of a partnership which makes loans secured by stock or bond collateral, other than to its own subsidiaries. The Board is of the opinion that the carrying of margin accounts involves the making of such loans within the meaning of this section; and it appears that the carrying of margin accounts constitutes a substantial portion of the business of Paul Brown and Company.

"The Federal Reserve Board is authorized by Section 8 of the Clayton Act to issue permits covering relationships between not more than three banking institutions which are otherwise prohibited by Section 8 or Section 8A, if such relationships are not incompatible with the public interest. However, it is not the Board's practice to issue permits authorizing relationships between national banks and institutions carrying margin accounts because it appears that one of the principal purposes of Section 8A was to terminate such relationships and that the issuance of permits authorizing such relationships would be incompatible with the public interest as declared by the Congress.

"In the circumstances, irrespective of whether or not Paul Brown and Company is a banking institution of a kind referred to in Section 8, it will be necessary for you to discontinue your services with that company or with the Mercantile-Commerce National Bank in St. Louis in order to conform with the provisions of Section 8A of the Clayton Act. However, your service to Paul Brown and Company and to the Mercantile-Commerce Bank and Trust Company is not prohibited by Section 8A because that bank is not organized or operating under the laws of the United States within the meaning of that section. Please advise the Federal Reserve Agent at the Federal Reserve Bank of St. Louis of the action which you take in order to comply with the law."

Approved.

Letters to the following applicants for permits under section 32

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of the Banking Act of 1933; each letter stating that it appears that the dealer in securities involved in the application is engaged primarily in the business of purchasing, selling, or negotiating securities within the meaning of section 32, and that the relationship covered by the application is within the class which that section 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 with regard to the question whether the dealer in securities is engaged primarily in the business of purchasing, selling, or negotiating securities, or any other question, the Board is prepared to give them careful consideration:

Mr. Edward L. Bigelow, for permission to serve at the same time as a director of the State Street Trust Company and as a partner of Tucker, Anthony & Co., both of Boston, Massachusetts.

Mr. John R. Chapin, for permission to serve at the same time as a director of The National Rockland Bank of Boston, Boston, Massachusetts, and as syndicate manager of Kidder, Peabody & Company, Boston, Massachusetts.

Mr. Frederick A. Singleton, for permission to serve at the same time as an officer and director of the Boulevard Trust Company, Brookline, Massachusetts, and as manager of the Providence office of Kidder, Peabody and Company, Boston, Massachusetts.

Mr. Edwin S. Webster, Jr., for permission to serve at the same time as a director of The New England Trust Company and as a partner of Kidder, Peabody & Company, both of Boston, Massachusetts.

Mr. James M. Johnston, for permission to serve at the same time as a director of the Liberty National Bank, Washington, D. C., and as a partner of James M. Johnston & Co., Washington, D. C.

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The letter to Mr. Chapin stated that it appears that the carrying of margin accounts constitutes a substantial portion of the business of the dealer in securities involved in his application, that, in the circumstances, irrespective of whether or not the dealer in securities is a banking institution of a kind referred to in section 8 of the Clayton Act, it will be necessary for Mr. Chapin to discontinue his services with one or the other of the institutions named in his application in order to conform with the provisions of section 8A of the Clayton Act, and that it is requested that he advise the Federal Reserve Agent at the Federal Reserve Bank of Boston of the action which he takes in order to comply with the law.

Approved.

Letters to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. P. P. Holbrook, for permission to serve at the same time as a director of The First National Bank of Paintsville, Paintsville, Kentucky, and as a director and officer of The Bank of Blaine, Blaine, Kentucky.

Mr. L. R. F. Preysz, for permission to serve at the same time as a director of the Citizens National Bank of Elkins, Elkins, West Virginia, and as a director and officer of The Bank of Rainelle, Rainelle, West Virginia.

Mr. W. P. Paxton, for permission to serve at the same time as a director and officer of the Citizens Savings Bank, Paducah, Kentucky, and as a director of the Louisville branch of the Federal Reserve Bank of St. Louis, Louisville, Kentucky.

Mr. D. O. Scott, for permission to serve at the same time as a director and officer of The First State Bank, Hulbert, Oklahoma, and as a director and officer of The First National Bank of Tahlequah, Tahlequah, Oklahoma.

Approved.

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Thereupon the meeting adjourned.

Oliver Merrill
Secretary.

Approved:

E. R. Hall
Governor.