

A meeting of the Federal Reserve Board was held in Washington on Monday, July 2, 1934, at 12:15 p. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. James
Mr. Thomas
Mr. Szymczak
Mr. O'Connor

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of
Bank Operations

Governor Black submitted for the consideration of the members of the Board a draft of a proposed letter to the governors of all Federal reserve banks, inclosing a copy of a proposed letter to the Secretary of the Treasury relative to the payment by him to each Federal reserve bank of its proportionate part of the \$139,299,557 which the reserve banks may receive under the provisions of subsection (e) of section 13b of the Federal Reserve Act, as amended by the industrial credit act.

After a brief discussion, the proposed letter to the governors was referred to Mr. Smead with the request that he review it and submit to the Governor any suggestions he might wish to make with regard thereto.

Governor Black also submitted a draft of a proposed letter to the governors of all Federal reserve banks inclosing a copy of the letter received under date of June 22, 1934, from Honorable Jesse Jones, Chairman of the Reconstruction Finance Corporation, together with a copy of Governor Black's reply dated June 26, 1934, in regard

7/2/34

-2-

to cooperation between the Federal reserve banks and the Reconstruction Finance Corporation in connection with the administration of the provisions of the industrial credit act.

After discussion, during which certain changes in the letter were suggested by various members of the Board, the letter was approved in the following form:

"Enclosed I am handing you correspondence discussed at the recent conference of Governors and Chairmen, to wit: letter from Honorable Jesse Jones, of the Reconstruction Finance Corporation, to me under date of June 22, 1934, and my reply under date of June 26, 1934.

"You will note that I made my reply as much along the spirit of the discussion had in the conference as I could. I understood the expressions of the conference to mean that the Reserve Banks should not have joint action with the Reconstruction Finance Corporation in the making of these loans but that full cooperation between the two agencies in the interest of making the loans could well be had.

"I believe that this cooperation in each bank will prevent harmful competition between the Reconstruction Finance Corporation and your bank, the appearance of an applicant before the Reconstruction Finance Corporation who had been declined by your bank, and the possibility of a critical review of any action of your bank by the Reconstruction Finance Corporation.

"I am expressing myself freely on this subject feeling that you are primarily interested in your bank doing a fine job in the interest of the small industrialists of your district, and that you will work out the details of cooperation to affirmatively accomplish the desired ends."

(Secretary's note: Mr. Jones' letter of June 22, 1934, referred to above, is quoted in the minutes of the meeting of the Board with the Federal reserve agents and governors held on June 26, 1934, and, in order to complete the record, Governor Black's letter of June 26, 1934, to Mr. Jones is quoted below:

"Your letter of the 22nd relative to cooperation in the matter of making loans to industry was today considered at our conference.

"The conference felt that the law covering loans to industry by the Reserve Banks specifically defines the functions and duties of the Reserve Banks in the matter of making such loans. This law also provides for a Statutory Advisory Committee composed of

7/2/34

-3-

"industrialists and defines its duties and powers.

"The conference was of opinion that the Federal Reserve Banks cannot waive the duties or obligations imposed by law by any form of collateral agreement. It believes, however, that the Federal Reserve Banks will find many ways in which they and the Reconstruction Finance Corporation agencies can be of mutual help by cooperating in exchanging information and expeditiously handling the applications that will come under the new legislation. To a considerable extent cooperation already exists in fact, and it is the feeling of the conference that such further working arrangements as may be necessary or desirable will be developed most speedily and satisfactorily as the work progresses in each bank.

"In the end we are all striving to aid industry and to that end we will cordially cooperate. In this way we will help to aid Recovery.")

Consideration was given to a letter dated June 28, 1934, from Mr. Case, Chairman of the Federal Reserve Bank of New York, referring to recent correspondence between the bank and the Federal Reserve Board in regard to the retention of the services of Mr. Carl Snyder, General Statistician of the bank, and stating that the directors of the New York bank have again considered this question and have authorized Mr. Case to indicate to the Board that their request to the Retirement Committee of the Retirement System of the Federal Reserve Banks, for the retention of Mr. Snyder's services, contemplated that he will be retained only until April 23, 1935, which is one year after the date upon which he reached the retirement age. The letter stated also that, in view of this statement of the intention of the directors of the New York bank, it is requested that the Board approve the payment of Mr. Snyder's salary at the rate of \$11,000 per annum for the period from July 1 to December 31, 1934. Mr. Morrill stated that Mr. Miller had requested him, if the subject of the letter referred to above came up for consideration at a meeting of the Board during his

7/2/34

-4-

absence, to advise the other members of the Board that, if they were so disposed, Mr. Miller would be willing to vote in favor of extending to December 31, 1934, the payment of Mr. Snyder's salary, with the understanding that such action was final and was accepted by the Federal Reserve Bank of New York as being a final disposition of the case. Mr. Miller stated, however, Mr. Morrill said, that if a majority of the members of the Board voted to extend the period to April 23, 1935, he could be recorded in accordance with the majority vote of the Board.

After brief discussion, Mr. Hamlin moved that the Secretary be requested to prepare, for the consideration of the Board, a draft of a letter to Mr. Case advising that the Board approves the payment of Mr. Snyder's salary to April 23, 1935, with the distinct understanding that such action is final and that Mr. Snyder's services will terminate on that date.

Carried, Mr. James voting "no".

Governor Black stated that Mr. Case, Chairman of the Federal Reserve Bank of New York, had talked with him on the telephone recently in regard to the existing limitation on the rate of interest which may be paid by member banks on time and savings deposits under the provisions of the Board's Regulation Q and had addressed a letter to him under date of June 29, 1934 inclosing a copy of a proposed circular letter which the board of directors of the Federal Reserve Bank of New York has authorized Mr. Case, subject to the approval of the Federal Reserve Board, to send to all member banks in the second Federal reserve district, calling attention to the maximum interest rate of 3% which may be paid by member banks on time and savings deposits

7/2/34

-5-

under the provisions of the Board's Regulation Q, and stating that Mr. Case is authorized by the Federal Reserve Board to call attention to the fact that the 3% rate so established is a maximum rate for the entire country, and should not be considered as a mandatory rate to be paid on time and savings deposits by member banks when in the interest of sound banking conditions the payment of a lower rate is desirable, and that, under conditions now prevailing, the New York bank suggests that all member banks in the second district consider promptly a reduction in the rate of interest paid by them on time and savings deposits to not more than $2\frac{1}{2}\%$. Governor Black read the proposed circular letter for the Board's information. Mr. Case's letter of June 29 also referred to copies of letters recently sent by him to Governor Black which had been received by Mr. Case from Mr. Joseph A. Broderick, Superintendent of Banks of the State of New York, Mr. Charles A. Miller, President of the Savings Banks Trust Company, New York, New York, and Mr. F. H. Plumb, President of the Syracuse Clearing House, Syracuse, New York, all of which recommended that the Federal Reserve Board establish by regulation a lower maximum rate of interest than that fixed by Regulation Q.

Governor Black stated that he had given careful consideration to the proposed circular letter and had reached the conclusion that, in his opinion, it should not be sent out by the Federal Reserve Bank of New York to its member banks; that in connection with this matter he had also given consideration to the provisions of Section 24 of the Federal Reserve Act, which provide that the rate of interest which

7/2/34

-6-

may be paid by national banks upon time and savings deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by state banks or trust companies organized under the laws of the state wherein such national banks are located; and that the question had occurred to him as to whether, if the state banking authorities of New York fixed a maximum rate of $2\frac{1}{2}\%$ on time and savings deposits, national banks and state member banks would be authorized to pay interest at a higher rate on such deposits. Mr. Wyatt expressed the opinion that, if the New York banking authorities took such action, neither national banks nor state member banks in New York would have authority to pay interest on time and savings deposits in excess of $2\frac{1}{2}\%$.

Governor Black said that he had been giving some thought to the advisability of requesting the Federal reserve banks to make another survey in their respective districts in order to determine whether there was any appreciable demand for a modification of the maximum limit fixed by the Board in its Regulation Q with respect to the rate of interest which may be paid by member banks on time and savings deposits, and said also that, in considering this matter, it would be necessary to take into consideration a number of factors, including the maximum limit on interest rates fixed by the Federal Deposit Insurance Corporation for nonmember banks, the interest rates paid by the Postal Savings System, mutual savings banks and nonmember banks which are not members of the Federal Deposit Insurance Corporation, and the yield on Government securities.

After further discussion, the Governor was

7/2/34

-7-

authorized to send the following letter to Mr. Case, Chairman of the Federal Reserve Bank of New York:

"I have yours of June 29th containing a letter to be sent by your bank to all member banks, suggesting to such banks that 'they consider promptly a reduction in the rate of interest paid by them on time and savings deposits to not more than 2-1/2 per cent.'

"At your request this suggested letter has been considered by the Board.

"Any suggestion as to any rate to be made by a member bank would be outside the province of a Reserve Bank. The fixing of a rate within legal limitations is a function of the member bank. A suggestion as to a rate might be wise or it might be unwise. The responsibility for such a decision should rest only with the member bank, its only limitation in the exercise of such function being the limit fixed by the law.

"If a suggestion were to be made at this time strong argument could be advanced for a maximum rate lower than the suggested rate. This is especially true of your city banks, which at the present time have rates much lower than the maximum suggested and as to which banks your suggestion would have no application.

"The Board has tried to fix a maximum rate so that each bank could determine for itself the proper rate applicable for itself, and we had hoped that each bank would appreciate this freedom of action and courageously make its own rate. This has been done to a very large extent. The requests for a lower maximum rate have been limited in number and have been confined to those banks who have not courageously faced and met their own situation.

"The Board, however, is giving consideration to this question of maximum rate in different localities and to this end has requested each Reserve Agent to quietly make a survey as to present conditions as to rates, and upon receipt of this information will consider this question. It seems appropriate to do this since the prior maximum rate was fixed some ten months ago.

"In considering this question there arises (1) the question of competition with Postal Savings, which pay 2 per cent on deposits and exchange for deposits postal bonds bearing 2-1/2 per cent; (2) the question of the maximum rate fixed by Federal Deposit Insurance Corporation; (3) the question of rate fixed by mutual savings banks, especially those outside the Federal Deposit Insurance Corporation; (4) the question of government rates; and (5) the question of competitive rates of non-member banks.

"It may be that the maximum should be lowered, but the real question is between the present maximum rate, where voluntary action may be had by each bank without a solution of the other questions just named, or a new maximum where the questions will be involved. We will, however, await your survey with interest."

7/2/34

-8-

In this connection, the Secretary was requested to prepare, for the Board's consideration, a telegram to each Federal reserve agent requesting that he furnish the Board with a current report showing the present situation in his district as to rates of interest on time and savings deposits.

The Board then considered and acted upon the following matters:

Memorandum dated June 27, 1934, from Mr. Leonard, Examiner in Charge, Division of Examinations, recommending the temporary appointment, for a period of thirty days, of Miss Helene L. Kearney as a stenographer in the division, with salary at the rate of \$4.50 a day for each working day, effective as of the date upon which she enters upon the performance of her duties.

Approved.

Memorandum dated June 28, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment, for a period of three months, of Mrs. Helen H. Hassell as a stenographer in the division, with salary at the rate of \$1,440 per annum, effective July 2, 1934.

Approved.

Renewal bond, in the amount of \$50,000, executed on June 25, 1934, by Mr. Ernest Clarke Hill as Assistant Federal Reserve Agent at the Federal Reserve Bank of Philadelphia.

Approved.

Memorandum dated June 26, 1934, from the Committee on Salaries and Expenditures, submitting a letter dated June 20, from Mr. Helm, Deputy Governor and Cashier of the Federal Reserve Bank of Kansas City,

7/2/34

-9-

which requested approval of a change in the personnel classification plan of the bank to provide for the new position of "clerk-bookkeeper" in the Fiscal Agent-Reconstruction Finance Corporation department. The memorandum stated that the committee had reviewed the proposed change and recommended that it be approved.

Approved.

Telegram to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"Board has considered list which you left with me of proposed members of Industrial Advisory Committee for the Ninth Federal Reserve District, and approves the appointment by the board of directors of your bank of Messrs. C. O. Follett, Hiram Elliott, S. L. Sewall, Albert Miller and Harvey Jewett as members of the Committee."

Approved.

Letter to Mr. John C. Farber, Washington, D. C., reading as follows:

"Receipt is acknowledged of your letter of June 25, 1934, as Attorney for Mr. Allyn L. Wright, requesting advice as to whether the Federal Reserve Board has taken any action directing The Orange First National Bank of Orange, New Jersey, to remove Mr. Wright as an officer of that institution.

"In connection with the application of The Orange First National Bank of Orange, New Jersey, for permission to exercise fiduciary powers, which was approved by the Federal Reserve Board on February 28, 1934, consideration was given, in accordance with the Board's usual practice in connection with applications for permission to exercise trust powers, to the qualifications of the proposed trust officer to exercise the functions required by that position. At that time the Board was advised that Mr. Wright did not claim to have any special qualifications or to have had any particular training to fit him for trust work other than the experience acquired by handling trust matters for the Orange National Bank and that The Orange First National Bank contemplated the employment of a man specifically trained in the work of a trust department. The Federal Reserve Board has not made any requirement that the services of Mr. Wright as an officer of The

7/2/34

-10-

"Orange First National Bank shall be terminated.

"A copy of this letter is being forwarded to the President of The Orange First National Bank, Orange, New Jersey."

Approved.

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 1, 1934, with inclosures, regarding the reorganization of the First State and Savings Bank, Howell, Michigan.

"It has been noted that your counsel is of the opinion that the plan of the reorganization of this bank complies with the laws of the State of Michigan and that the reorganization will not result in any change in the corporate status of the bank which will affect its membership in the Federal Reserve System. While the Board interposes no objection to this reorganization, it has been noted that one of the conditions thereof provided that the bank should purchase ten shares of stock in the Howell Depositors Corporation, a corporation formed for the purpose of liquidating the assets transferred to it by the bank for the benefit of the waiving depositors of the latter. In this connection, your attention is called to the fact that under the provisions of Section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, a State member bank may not lawfully purchase stocks of other corporations except in the limited classes of cases in which national banks may do so. No exception is contained in the law in the case of stocks of the kind in question and, in the circumstances, if the bank now owns this stock in the Howell Depositors Corporation, you are requested to advise it that, if it has not already done so, it should dispose of such stock as soon as it is feasible to do so. It has been noted also that in the papers submitted in connection with the reorganization reference is made to an agreement which the court ordered the bank, prior to its reopening, to enter into with the Howell Depositors Corporation. No copy of an agreement of this kind has been included with these papers and it will be appreciated if you will obtain and forward a copy thereof to the Board in order that its records in the matter may be complete."

Approved.

Letter to "The National Bank and Trust Company of Erie", Erie, Pennsylvania, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise fiduciary powers and

7/2/34

-11-

"grants you authority, effective if and when The National Bank and Trust Company of Erie, Erie, Pennsylvania, is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Pennsylvania, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"After the Comptroller of the Currency authorizes the national bank to commence business, the board of directors should adopt a resolution ratifying the action taken on its behalf in making application for permission to exercise trust powers, and it is requested that a certified copy of the resolution so adopted be forwarded to the Federal Reserve Board for its records as soon as possible. When a copy of such resolution has been received by the Board, a formal certificate covering the right of The National Bank and Trust Company of Erie to exercise fiduciary powers will be forwarded to it.

"The Board feels that, if you are tendered any of the trusts now held by the Second National Bank of Erie or by the Erie Trust Company, you should carefully scrutinize their condition and should not accept any of such trusts which, through their assumption, may be detrimental to the interests of your institution."

Approved.

Letter to "The National Bank of Eastern Arkansas of Forrest City", Forrest City, Arkansas, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Arkansas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the fiduciary powers granted by the Board. A formal certificate covering such authorization will be forwarded to you in due course."

Approved.

7/2/34

-12-

Letter to "The Royall National Bank of Palestine", Palestine, Texas, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise certain fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator and registrar of stocks and bonds, grants you authority to act, when not in contravention of State or local law, as guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the additional fiduciary powers set forth above. A formal certificate covering such authorization will be forwarded to you in due course."

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 Peninsula National Bank of Cedarhurst', Cedarhurst, New York, from \$100,000 to \$20,000, pursuant to a plan which provides that the bank's capital shall be increased by \$261,000 of preferred stock to be sold to the Reconstruction Finance Corporation and others, and that the released capital, together with part of the bank's surplus, profits and reserves, shall be used to eliminate all estimated losses, all depreciation in lower grade bonds, and \$132,900 of the directors' guaranty amounting to \$145,500 which is now a part of the bank's assets and which is classed as \$72,500 slow and \$60,400 doubtful, all as set forth in your memorandum of June 18, 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

7/2/34

-13-

"The First National Bank of Menasha', Menasha, Wisconsin, from \$150,000 to \$75,000, pursuant to a plan which provides that the bank's capital shall be increased by \$75,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with a portion of the bank's surplus and undivided profits accounts, shall be used to eliminate unsatisfactory assets in the amount of approximately \$102,000, all as set forth in your memorandum of June 19, 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 Rush County National Bank of Rushville', Rushville, Indiana, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$50,000 of preferred stock to be sold to the Reconstruction Finance Corporation and that the released capital, together with a portion of the undivided profits, shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of June 22, 1934."

Approved.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Replying your telegram June 28, 1934, re 'J. N. Ireland and Company, Bankers', Malad, Idaho, the last sentence of Board's telegram of June 23, 1934, referred especially to that bank and stated that on basis of information submitted Board will raise no objection to proposed reduction provided that none of funds released by such reduction are returned to shareholders but are used to eliminate any undesirable assets in bank, that reduction is valid under State law and that it meets with your approval."

Approved.

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

"This refers to Mr. Gettemy's letter of May 22, 1934, requesting advice as to when the Boston-Continental National Bank of Boston, Massachusetts, became a member of the Federal Reserve

7/2/34

-14-

"System.

"It appears from the Board's records in this case that the Comptroller of the Currency issued his certificate of authority to the subject bank, then known as the Boston National Bank, to commence business on December 31, 1920, which was prior to the time the bank filed an application for stock in the Federal Reserve Bank of Boston. The Board's records show that this application was made pursuant to a resolution of the board of directors of the Boston National Bank adopted on January 11, 1921, and that the application was approved by the Board on January 28, 1921. The Board's records do not show the date upon which the Federal Reserve Bank of Boston received payment for such stock and, accordingly, it is not possible to advise you as to the date upon which the bank became a member of the Federal Reserve System. In this connection, however, in accordance with the position heretofore taken by the Board in its letter of April 15, 1922 (X-3384), if the date of the Board's approval of the application of the Boston National Bank for Federal reserve bank stock was prior to the date of the payment therefor, the bank became a member of the System as of the date of such payment; but if the payment was made prior to the date the application was approved, the bank became a member as of the date of such approval. You can ascertain from the records of the Federal Reserve Bank of Boston the date upon which payment was received for the Federal reserve bank stock issued to the Boston National Bank, and, in the light of the explanation just given, establish definitely the date upon which the national bank became a member of the System.

"The subsequent consolidation of the Boston National Bank with the Continental National Bank, also of Boston, under the provisions of the Act of Congress of November 7, 1918, and under the title of the Boston-Continental National Bank, was effected under the charter of the Boston National Bank and did not affect the status of the Boston National Bank as a member of the Federal Reserve System. The bank, therefore, remained a member of the Federal Reserve System from the date your record shows it became such a member until February 17, 1933, the date upon which its stock in the Federal Reserve Bank of Boston was canceled. For your information there is inclosed a copy of a certificate issued by the Comptroller of the Currency covering the consolidation of these national banks and your attention is also called to the provisions of the Board's Regulation I regarding consolidations of member banks."

Approved.

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

"In compliance with the recommendation made in your letter

7/2/34

-15-

"of June 22, the Industrial Trust Company, Wilmington, Delaware, is granted an extension of time to July 5 within which to submit Form 231."

Approved.

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

"This refers to Mr. Anderson's letter of April 4, 1934, inclosing in accordance with the Board's request a copy of the opinion of counsel for your bank with respect to the question whether the payment by the Logan National Bank and Trust Company, New Kensington, Pennsylvania, of the premium on a surety bond to secure deposits of the United States District Court constitutes an indirect payment of interest within the meaning of Section 19 of the Federal Reserve Act.

"From the opinion of your counsel, it does not appear whether the deposits in question represent funds belonging to a bankrupt's estate and whether the surety bond to secure such deposits is required by the District Court in pursuance of the provisions of the Federal Bankruptcy Act. Counsel for the Federal Reserve Bank at Atlanta has expressed the opinion that the payment of the premium by a member bank on a bond required under the Bankruptcy Act is not to be regarded as an indirect payment of interest within the scope of the Board's ruling of July 12, 1933 (X-7500). In view of that opinion, it is suggested that you request counsel for your bank to consider, if he has not already done so, whether the funds here involved are bankruptcy funds, and, if so, whether the payment of the premium on the bond in question would fall within the principle of the Board's ruling aforesaid. If, after consideration of this question, your counsel is of the opinion that the payment of such premium in this case does not fall within the scope of that ruling, or if the deposits in question do not represent funds of a bankrupt estate, it is requested that you advise the Logan National Bank and Trust Company in accordance with your counsel's opinion in this matter. However, if the deposits in question represent funds of a bankrupt estate and your counsel is of the opinion that the payment of the premium on the bond securing such deposits is forbidden by law, it is requested that you refer the matter to the Board for a ruling and that you furnish the Board with a copy of counsel's opinion.

"For the information of your counsel in this connection, there is inclosed herewith a copy of the opinion of counsel for the Federal Reserve Bank at Atlanta referred to above."

Approved.

7/2/34

-16-

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

"Receipt is acknowledged of your letter of June 15, 1934, in which you request to be advised whether section 20 of the Banking Act of 1933 requires the divorcement of the State Planters Bank & Trust Company of Richmond, Virginia, and its wholly owned subsidiary, the Richmond Mortgage & Loan Corporation of Richmond, Virginia.

"You state that prior to March, 1933, the Richmond Mortgage & Loan Corporation conducted a business substantially the same as that of the Mortgage Investment Company referred to in the Board's letter of June 8, 1934 (X-7910). Among other things, it appeared in that case that the Mortgage Investment Company was engaged in issuing bonds in series secured by first mortgages on real estate in an amount totaling at least the face amount of the bonds. However, it is understood that in the instant case the Richmond Mortgage & Loan Corporation at the present time is not issuing any new bonds or making any new loans secured by mortgages, and does not propose to do so, and that it does not permit the renewal of any of the existing mortgage loans except in unusual circumstances. You also state that it is transacting no business except such as may be incidental to the liquidation of its affairs.

"On the basis of the facts submitted, the Federal Reserve Board is of the opinion that the Richmond Mortgage & Loan Corporation is not at this time engaged principally in the issue, flotation, underwriting, public sale or distribution of securities within the meaning of section 20 of the Banking Act of 1933, and that the provisions of that section are inapplicable to such corporation. As you know, the Federal Reserve Board has ruled that mortgage notes arising out of the ordinary type of direct loans on real estate are not 'stocks, bonds, debentures, notes or other securities' within the meaning of said section 20. It is assumed that the mortgage notes in question fall within that category and, if so, the renewal or sale of such mortgage notes, as distinguished from the issuance and sale of bonds secured by mortgages, does not constitute the issuance or public sale of securities within the provisions in question. Accordingly, it is the view of the Federal Reserve Board that the corporation in question is not engaged principally in the business of a securities company and that said section 20 does not require the divorcement of said corporation and the member bank, even though the corporation has not been placed in formal liquidation."

Approved.

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

7/2/34

-17-

"Please advise James E. Goodrich, Commerce Trust Company, Kansas City, Missouri, as follows 'On basis of information furnished in your letter of June 27, 1934, and inclosure, it appears that upon consummation of plan described therein, which involves dissolution of Keystone Corporation and retirement of its stock, stock of Keystone Mortgage Investment Company and stock of Commerce Trust Company may be owned, sold, or transferred independently of each other, and, if so, Board is of opinion that such arrangement will not be in violation of provisions of nineteenth paragraph of Section 9 of Federal Reserve Act. Board is also of opinion that assumption by Keystone Mortgage Investment Company of indebtedness of Keystone Corporation to Commerce Trust Company in circumstances described will not constitute violation of provisions of Section 23A of said Act.'"

Approved.

Letter to Governor Calkins, Chairman of the Governors' Conference, reading as follows:

"Since contracts were first entered into for the lease of telegraph wires connecting the Federal Reserve Board and the Treasury with all Federal reserve banks the number of words sent over the leased wires has increased very substantially, especially in respect to messages sent by various Governmental agencies, and it would seem that it would be worth while to review at this time the accounting procedure set up for determining the costs and allocations of costs connected with the operation of the leased wire system, and particularly whether costs of the reimbursable business handled over the leased wires are properly determined.

"From the attached statement, X-7922, showing expenses of the leased wire system for the month of May 1934 it will be noted that the expenses of the leased wire system are confined to operators' salaries, operators' overtime, retirement contributions, and wire rental. There are certain other expenses connected with the maintenance of the leased wire system, such as messenger service, cost of counting the number of words in messages, printing and stationery, etc., to which consideration must be given if accurate information is to be obtained as to the cost of operating the system. Inasmuch as many of the messages sent over the main wires are relayed over the branch wires, consideration should also be given to the question whether a portion of the branch wire expenses should not be included in the cost of the leased wire system which is used as a basis for determining the costs to be borne by each of the agencies using the leased wires.

"You will also note from the attached statement that the

7/2/34

-18-

"expense of messages dispatched by the Federal Reserve Board is apportioned to the Federal Reserve banks on the basis of the ratio that the number of words sent by each Federal Reserve bank bears to the total number of words sent by all Federal Reserve banks. This, of course, somewhat over-states the telegraph expenses of the Federal Reserve banks and under-states such expenses of the Board. The statement also shows that the salaries of the Washington operators are carried on the payroll of the Federal Reserve Bank of Chicago. It is understood that this arrangement was thought advisable at the time the system was set up, but the question arises whether it should be continued.

"The Board would appreciate very much your referring the above questions to the Leased Wire Committee of the Governors' Conference with a request that the Committee review them fully and submit a report thereon with recommendations for such changes as are thought desirable. It is assumed that the Board will be furnished a copy of the Committee's report as soon as it is completed. If the Leased Wire Committee desires, the Board will be glad to have it call on its staff for any information in this connection it may need."

Approved.

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

"The Federal Reserve Board has given consideration to your letter of March 10, 1934, inclosing copies of letters received by you from Ueland and Ueland, attorneys for the Federal Reserve Bank of Minneapolis, and from Cobb, Hoke, Benson, Krause and Faegre, attorneys for the Northwest Bancorporation, regarding the questions whether The Central Company, a subsidiary of the Northwest Bancorporation, is a 'dealer in securities' within the meaning of Section 32 of the Banking Act of 1933 and a 'securities company' within the meaning of Section 5144(e) of the Revised Statutes as amended by Section 19(e) of the Banking Act of 1933.

"It appears that The Central Company desires to continue the mortgage and loan business formerly handled by The Minnesota Mortgage Loan and Trust Company, which has been absorbed by a subsidiary of the Northwest Bancorporation. It appears, also, that the articles of incorporation of The Central Company provide that it may carry on a general real estate, loan, rental and insurance business and authorize it to deal in stocks, bonds, and mortgages, to manage and control real estate and to carry on a general insurance agency business. It is stated that The Central Company does not intend to engage in handling any stocks or bonds whatsoever; that its sole activity will be that of

7/2/34

-19-

"servicing existing mortgage loans, handling real estate, and, possibly, in the future, making loans on real estate, either in its own behalf or in behalf of clients, and selling to investors the mortgages taken as security for such loans.

"As you know, although there may be mortgage notes of a kind which should be classified as 'securities' for the purposes of Section 32, the Board is of the opinion that 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. In this connection, reference is made to the Board's letters of April 13, 1934 (X-7859) and April 16, 1934 (X-7866).

"While Section 32 forbids certain relationships between member banks and organizations 'engaged primarily in the business of purchasing, selling, or negotiating securities', Section 5144(e) is concerned with relationships between holding company affiliates of national banks and organizations 'formed for the purpose of or engaged principally in, the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort'. Although the latter definition is broader than the language of Section 32, it seems that 'securities' within the meaning of Section 32 would also come within the meaning of Section 5144(e) and vice versa. Accordingly, if the type of obligation dealt in by an organization is such that its business does not come within Section 32 and it was not organized for the purpose of dealing in other securities of any sort, the organization is not a 'securities company' within the intendment of Section 5144(e).

"Therefore, the Board believes that a company which confines its activities to the servicing of mortgage loans, handling of real estate and dealing in mortgages and ordinary mortgage notes and which was not organized for the purpose of engaging 'principally in the issue, flotation, underwriting, public sale, or distribution * * * of stocks, bonds, debentures, notes, and other securities' does not come within the purview of Section 5144(e). In this connection, reference is made to the Board's letter of March 27, 1934 (X-7835). While The Central Company is authorized to deal in stocks, bonds and mortgages, it is understood that the power is given as an incident to the general real estate, loan, rental and insurance business for carrying on which the company was formed. The fact that the company is authorized to deal, among other things, in stocks and bonds ancillary to the general real estate, loan, rental and insurance business does not necessarily lead to the conclusion that the company was formed for the purpose of 'the issue, flotation,

7/2/34

-20-

"underwriting, public sale, or distribution * * * of stocks, bonds, debentures, notes, or other securities of any sort', and it has been stated in connection with the request for a ruling that the company has no intention of dealing in such stocks and bonds. On the basis of the information before the Board, therefore, it seems that the company is not brought within the scope of the statute by reason of an incidental power to deal in such securities.

"Accordingly, if The Central Company confines its activities to the servicing of existing mortgage loans, handling real estate, making loans on real estate and selling to investors the mortgages or mortgage notes taken as security for such loans, unless there are other facts which you believe should be called to the attention of the Board with regard to the purposes for which the company was formed or otherwise, it is suggested that you notify the attorneys for Northwest Bancorporation that the business of that company does not come within the scope of Sections 32 and 5144(e)."

Approved.

Letter to The Stock Growers National Bank, Cheyenne, Wyoming,
reading as follows:

"The Federal Reserve Board has received your letter of June 19, 1934, in which you ask what ruling has been made in the event a national bank contracts for the purchase of a new issue of general obligation municipal bonds. You state that you understand a national bank may not bid jointly for an issue with an investment house, but that such bank may buy the entire issue for its own account and that you also understand two or more national banks may band themselves together in the purchase of such securities, provided no investment house is included. It is assumed that you refer to the prohibitory provisions of Section 32 of the Banking Act of 1933, which section applies to all banks which are members of the Federal Reserve System, whether such banks are national banks or banks which are organized under the laws of a particular State.

"Section 32, referred to above, prohibits correspondent relationships between member banks of the Federal Reserve System and dealers in securities, unless there is a permit therefor issued by the Federal Reserve Board. Such correspondent relationships include regular associations between member banks and dealers in securities in connection with underwriting and dealing in securities, and Section 32 does not contain any exception based upon the kind of securities underwritten or dealt in. However, paragraph 'Seventh' of Section 5136 of the Revised Statutes of the United States, as amended by the Banking Act of 1933, excepts certain municipal and other obligations from the restrictions upon underwriting and dealing in securities by national banks

7/2/34

-21-

"contained in Section 5136. These restrictions and the exceptions thereto also are made applicable to State member banks by the provisions of Section 9 of the Federal Reserve Act, as amended.

"The Federal Reserve Board is authorized by Section 32 to issue permits for correspondent relationships between member banks and dealers in securities whenever it finds that it is not incompatible with the public interest to do so, and the Board heretofore has decided that it is not incompatible with the public interest to grant permits authorizing correspondent relationships between member banks and dealers in securities in connection with underwriting and/or dealing in securities of the types exempted from the restrictions contained in Section 5136.

"In the past it has been the practice of the Federal Reserve Board to issue individual permits covering such correspondent relationships, but in order to relieve member banks and dealers in securities from the burden of preparing and filing formal applications in the cases of the kind herein described, the Board has granted a blanket permit under Section 32 for the period until December 1, 1934, authorizing correspondent relationships between any member bank or banks and any dealer or dealers in securities in connection with underwriting and dealing in the securities excepted from the restrictions contained in Section 5136 of the Revised Statutes namely: obligations of the United States, general obligations of any State or of any political subdivision thereof, obligations issued under authority of the Federal Farm Loan Act, obligations issued by the Federal Home Loan Banks, and/or obligations issued by the Home Owners' Loan Corporation. Such permit, however, is subject to revocation in whole or in part as to any or all member banks, after reasonable notice and opportunity to be heard, if the public interest so requires. Every member bank which exercises the privilege granted by such permit is required to furnish to the Federal Reserve Agent at the Federal Reserve Bank in the district in which the member bank is located such information concerning its operations under this permit as the Federal Reserve Board may require. If you wish further information or instructions in this matter, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of Kansas City, Kansas City, Missouri."

Approved.

Letter to Mr. Eugene B. Favre, Spokane, Washington, reading as follows:

"Reference is made to your letter of June 5, 1934, addressed to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco in regard to your application under Section 32 of the

7/2/34

-22-

"Banking Act of 1933 for a permit to serve at the same time as director of the Spokane and Eastern Trust Company and as president of Murphey, Favre & Co., both of Spokane, Washington. Inclosed with your letter was a copy of a letter to you dated June 5, 1934, from Mr. Joel E. Ferris, president of the Spokane and Eastern Trust Company, Spokane, Washington, containing additional facts and arguments concerning your application.

"The Federal Reserve Board has given careful attention to the statements contained in the letter from Mr. Ferris to the effect that the investment business of Murphey, Favre & Co. is a fairly recent addition to the mortgage business of the company which has been conducted continuously for over 40 years. The Board has also noted the fact that the transactions between the securities company and the trust company are of minor importance, and that rarely, if ever, are credit accommodations required, except in connection with mortgage transactions. Careful attention has likewise been given to the statement that the stock of Murphey, Favre & Co. is owned in its entirety by the United National Corporation of Seattle, and that you hold a salaried position with Murphey, Favre & Co. The Board has also noted the statements in both your letter and that of Mr. Ferris to the effect that you have for many years rendered valuable and unselfish service as a director of the trust company, and that the other directors and the management of the trust company are very desirous of having you remain on its Board.

"The Federal Reserve Board wishes to make it clear that the position taken in its letter of May 16, 1934, regarding your application was not based upon the belief that the particular relationship covered by your application had resulted in an improper influence upon the trust company. The Board believes, however, that it was the intent of Congress in enacting the provisions of Section 32 in regard to interlocking directorates to eliminate any possibility of an improper influence upon the management of member banks. This action on the part of the Congress was apparently based upon the belief that such interlocking directorate relationships had a tendency to cause an undesirable influence upon the credit and investment policies of member banks and their advice to their correspondents.

"In view of the fact that the Congress has enacted into law a general policy that such interlocking directorate relationships should be terminated because they are believed to be incompatible with the public interest, the Board feels that it should not grant permits covering relationships which are actually within the class at which Section 32 was directed, even though in a particular case the applicant has not allowed his interest in a securities company to influence his judgment as a director of a member bank.

"Although the Federal Reserve Board is not unsympathetic with your desire to continue to serve as president of Murphey, Favre & Co. and as a director of the trust company, the Board

7/2/34

-23-

"feels that your letter and the inclosed copy of the letter from Mr. Ferris state no facts which would justify an exception in your case and, accordingly, the Board denies your application. It will be appreciated if you will advise the Federal Reserve Agent at the Federal Reserve Bank of San Francisco of the action which you take in order to comply with the provisions of Section 32."

Approved.

Letter to Mr. James T. McMillan, Detroit, Michigan, reading as follows:

"Reference is made to your letter of June 20 in regard to the permit which was issued to you on December 23, 1933, by the Federal Reserve Board, under the Clayton Act, to serve as a director of the National Bank of Detroit and as a director of the Detroit Savings Bank, Detroit, Michigan, with the understanding that as soon as the existing emergency situation is passed and you are able to resign as a director of one of the institutions without injury to the interests of the bank, their depositors, or the community, such action will be taken by you.

"It is noted that you believe that the emergency is passed and that you are prepared to offer your resignation to both institutions, but that you feel you are not in position to choose between the two for reasons stated in the second paragraph of your letter. In view of your belief that the emergency has passed, and the understanding under which the permit was issued, it appears that you should terminate your relationship with one of the two banks, but the Board feels that it would not be appropriate for it to express any opinion with respect to your proposal to resign from both institutions, as that is a matter primarily for your consideration. When you have reached a conclusion in the matter it will be appreciated if you will inform the Federal Reserve Agent at Chicago, Mr. Stevens, to whom a copy of this letter is being transmitted."

Approved.

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

Mr. W. B. Catterlin, for permission to serve at the same time as a director of The Citizens National Bank of Emporia, Emporia, Kansas, as a director of The Citizens National Bank of Frankfort, Frankfort, Kansas, and as a director of the Clay County State Bank, Excelsior Springs, Missouri.

7/2/34

-24-

Mr. R. C. Kemper, for permission to serve at the same time as a director and officer of The City National Bank and Trust Company of Kansas City, Kansas City, Missouri, as a director and officer of the Commerce Trust Company, Kansas City, Missouri, and as a director and officer of The First National Bank of Independence, Independence, Missouri.

Mr. W. T. Kemper, for permission to serve at the same time as a director and officer of the Commerce Trust Company, Kansas City, Missouri, as a director of The City National Bank and Trust Company of Kansas City, Kansas City, Missouri, and as a director of the Fourth National Bank in Wichita, Wichita, Kansas.

Mr. W. T. Kemper, Jr., for permission to serve at the same time as a director and officer of the Kemper State Bank, Boonville, Missouri, as a director and officer of the Linwood State Bank, Kansas City, Missouri, and as a director and officer of The Citizens National Bank of Frankfort, Frankfort, Kansas.

Mr. M. A. Limbocker, for permission to serve at the same time as a director and officer of The Citizens National Bank of Emporia, Emporia, Kansas, and as a director and officer of The Peoples National Bank of Burlington, Burlington, Kansas.

Mr. James F. McPherson, for permission to serve at the same time as a director of the Linwood State Bank, Kansas City, Missouri, and as an officer of The City National Bank and Trust Company of Kansas City, Kansas City, Missouri.

Mr. G. H. Titus, for permission to serve at the same time as a director and officer of The First National Bank of Holdrege, Holdrege, Nebraska, and as a director and officer of The First National Bank of Loomis, Loomis, Nebraska.

Mr. L. B. Titus, for permission to serve at the same time as a director and officer of The First National Bank of Holdrege, Holdrege, Nebraska, and as a director of The First National Bank of Loomis, Loomis, Nebraska.

Mr. W. H. Swartz, for permission to serve at the same time as a director and officer of The First National Bank of Loomis, Loomis, Nebraska, and as a director of The First National Bank of Holdrege, Holdrege, Nebraska.

Mr. Ed Hart, for permission to serve at the same time as a director and officer of The Citizens National Bank in Okmulgee, Okmulgee, Oklahoma, and as a director of The First National Bank and Trust Company of Muskogee, Muskogee, Oklahoma.

Approved.

7/2/34

There was then presented the following application for a change in stock of a Federal reserve bank:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 7.</u>		
The Knisely National Bank of Butler, Butler, Indiana	36	36

Approved.

Thereupon the meeting adjourned.

Robert Howell
Secretary.

Approved:

E. A. Beach
Governor.