

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Tuesday, July 3, 1934, at 3:45 p. m.

PRESENT: Mr. Thomas, Chairman of the Executive
Committee
Mr. Hamlin
Mr. James

Mr. Morrill, Secretary
Mr. Smead, Chief of the Division of
Bank Operations

Consideration was given to a memorandum dated July 2, 1934, from Mr. Smead, Chief of the Division of Bank Operations, submitting a tentative draft of a letter to the chairmen of all Federal reserve banks in regard to changes in the weekly statement of condition of Federal reserve banks in connection with loans for industrial purposes authorized by Section 13b of the Federal Reserve Act as amended by the Act of June 19, 1934, and stating that it will be noted that the second paragraph of the letter states that the loans, discounts, advances and purchases made under the authority of Section 13b are to be designated in the Board's weekly Federal reserve bank condition statement as "Working capital advances", and that, as this caption is not altogether satisfactory, the following alternative captions were suggested for the Board's consideration:

Industrial loans (Section 13b)

Industrial loans

Loans for industry

Industrial advances

Section 13b advances

Obligations acquired under Section 13b.

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After discussion, it was the sense of the committee that the caption "Industrial advances" should be used in referring to loans, discounts, advances and purchases made under the authority of Section 13b of the Federal Reserve Act, as amended, and, accordingly, the proposed letter to be sent to the chairmen of all Federal reserve banks was approved in the following form.

"Section 13b, added to the Federal Reserve Act by the Act approved on June 19, 1934, provides in subsection (e) that in order to enable the Federal Reserve banks to make the loans, discounts, advances, and purchases provided for in such section, the Secretary of the Treasury is authorized to pay to each Federal Reserve bank not to exceed such portion of the sum of \$139,299,557 as may be represented by the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock, and it is understood that the Secretary of the Treasury will make such payments to the Federal Reserve banks from time to time as they make the loans, discounts, advances and purchases authorized by Section 13b. It is also provided that, within the meaning of such section, the sum so paid to each bank by the Secretary of the Treasury shall become a part of the surplus fund of the Federal Reserve bank.

"In the weekly condition statement, however, the amount of surplus derived from net earnings of the Federal Reserve banks will be shown against the caption 'Surplus (Section 7)', and the amount of surplus resulting from payments by the Secretary of the Treasury against the caption 'Surplus (Section 13b)'. The amount of loans, discounts, advances and purchases under Section 13b of the Federal Reserve Act will be shown in the weekly condition statements of the Federal Reserve banks against the caption 'Industrial advances', immediately following the item 'Bills bought in open market'.

"Inasmuch as Section 12B of the Federal Reserve Act provides that Class B stock in the Federal Deposit Insurance Corporation held by the Federal Reserve banks shall not be entitled to payment of dividends, and as payments received from the Secretary of the Treasury to enable the Federal Reserve banks to make industrial advances will be included in the Federal Reserve banks' surplus accounts, the Board feels that, beginning with July 1, 1934, the reserves set up at the time the Federal Reserve banks made their final payment on the subscription to the stock of the Federal Deposit Insurance Corporation should be considered as valuation reserves and deducted from the book value of the stock itself. Accordingly, the item 'Fed. Dep. Ins. Corp. stock' will be eliminated from the weekly condition statement of the Federal Reserve banks, the amount of reserves set up on such stock will be eliminated from the item 'Reserves (F. D. I. C. stock, self insurance, etc.)', and the latter caption will be changed to read

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"Reserves for contingencies'.

"You will note from subsection (e) of Section 13b that before payments are made to the Federal Reserve banks they must execute agreements to hold the stock of the Federal Deposit Insurance Corporation unencumbered and to pay to the United States all dividends, all payments on liquidation, and all other proceeds of such stock, for which dividends, payments and proceeds the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the Secretary of the Treasury under such section, and, that each Federal Reserve bank, in addition, shall agree that in the event such dividends, payments and other proceeds in any calendar year do not aggregate two per centum of the total payments made by the Secretary of the Treasury under such section, it will pay to the United States in such year such further amount, if any, up to two per centum of the said total payment as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury. It will be necessary, therefore, for the Federal Reserve banks to keep all income received from the use of the sum so paid by the Secretary of the Treasury, and all expenses and losses incurred in connection therewith, under Section 13b of the Federal Reserve Act, separate and distinct from the other earnings, expenses and losses of the bank, in order to determine what, if any, payments shall be made to the Secretary of the Treasury in the event the dividends, payments and other proceeds of the Federal Deposit Insurance Corporation stock do not aggregate in any calendar year two per centum of the total payments made by the Secretary of the Treasury under Section 13b. You will be advised at a later date in regard to the manner in which the net earnings of the Federal Reserve banks, derived from operations under Section 13b, are to be compiled and reported to the Federal Reserve Board and to the Secretary of the Treasury.

"On Form 34 please report 'Industrial advances', code TURK, following item Federal Land Bank bonds; item 'Surplus (Section 13b)', code TALC, following the item Surplus (Section 7); and 'Industrial commitments', code MENT, on the reverse side of the form."

In connection with the above, consideration was also given to a memorandum dated July 2, 1934, from Mr. Smead, submitting a draft of a proposed telegram to the chairmen of all Federal reserve banks advising that the reserve against the Federal Deposit Insurance Corporation stock held by the banks should be considered as a valuation reserve beginning July 1, and, accordingly, that the amount of such

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stock held by each Federal reserve bank will no longer be included in the condition statement of Federal reserve banks. The memorandum stated that, if the Board approves this suggestion, it is recommended that the following paragraph be inserted in the text accompanying the weekly Federal reserve bank condition statement to be issued on July 5, 1934:

"As the Federal reserve banks have heretofore set aside reserves with respect to the Federal Deposit Insurance Corporation stock held by them equal to the full par amount thereof, the amounts of such stock and of the reserves thereon are not included in the condition statement figures for the current week."

After discussion, the committee approved the proposed paragraph to be inserted in the text accompanying the condition statement to be issued on July 5, together with the following telegram referred to in Mr. Smead's memorandum:

"Board has decided that beginning July 1 reserve on Federal Deposit Insurance Corporation stock shall be considered as valuation reserve and deducted from book value of stock itself. Accordingly, no amount will be shown against 'Fed. Dep. Ins. Corp. stock' and 'Reserves (F.D.I.C. stock, self insurance, etc.)' for July 3 in weekly press statement to be issued on Thursday, July 5, and these captions will be eliminated beginning with statement for July 11. The amount of reserve for self insurance, etc. on July 3 and on subsequent dates will be shown against the caption 'Reserve for contingencies', code TALC. Any loans, advances, etc. under Section 13b will be shown against caption 'Industrial advances', code TURK, following item 'Bills bought in open market'. Letter follows."

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as at the close of business on June 30, 1934, and that, in accordance with the usual practice, a call was made on behalf of the Federal Reserve Board on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was ratified.

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The Committee then considered and acted upon the following matters:

Telegram dated July 2, 1934, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, advising that, at a meeting of the board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Telegram to Mr. Burgess, Deputy Governor of the Federal Reserve Bank of New York, reading as follows:

"Retel. Board approves appointment of Mr. Albert A. Hopeman as a member of the Industrial Advisory Committee of your bank vice Mr. Edward J. Barcalo who has declined to serve due to business obligations."

Approved.

Telegram to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"Retel. Board approves appointment by your bank of following members of Industrial Advisory Committee of Third District: Charles E. Brinley, J. Ebert Butterworth, John S. Chipman, W. F. R. Murrie and Richard D. Wood, it being understood on basis of information submitted that each of the above-named persons is actively engaged in some industrial pursuit within the Third District."

Approved.

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

"Receipt is acknowledged of Mr. Fletcher's letters of June 21 and June 26, 1934, with reference to an indebtedness due the Cleveland Trust Company, a member bank, by Mr. Ray L. Poland, an examiner for the Federal Reserve Bank of Cleveland.

"In view of the information submitted as to the nature of the indebtedness; the fact that Mr. Poland is no longer indebted to the bank, an obligation of the indorsers having been substituted for the note in question on which obligation Mr. Poland is in no

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"manner obligated; and your opinion as expressed in Mr. Fletcher's letter of June 21, 1934, the Federal Reserve Board will take no action in the matter."

Approved.

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

"Re application First National Bank of Ketchikan. Please refer Board's wire December 16, 1933 and forward information concerning banking and general conditions in Alaska and a statement to the Board of your views and recommendation as to the policies that should be pursued by the Board in considering applications from Alaska. Mr. Newton indicated in telephone conversation last November with Mr. Paulger that in view of the distance of the bank from banking centers, it should be required to carry in addition to statutory reserves with its reserve bank cash reserves in its vaults equal to the required reserve. In your reply please cover this point and if possible develop information as to general condition of the other bank in Ketchikan and effect granting of membership to First National Bank may have on it."

Approved.

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

"Reference is made to your letter of June 6, 1934, inclosing the application of the 'National Bank of Commerce of Lincoln', Lincoln, Nebraska, for full fiduciary powers.

"The Board has reviewed the application and the data in connection therewith, from which it appears that the bank's capital and surplus is only equal to approximately 4.5% of its deposit liabilities. While it is noted that the applicant bank is in a highly liquid condition, the Board feels that its capital structure is inadequate, as compared with the volume of deposits, and should be materially strengthened before the bank is permitted to assume the additional responsibilities of a trust department. Accordingly, action on the pending application for fiduciary powers will be deferred until advice has been received that the bank's capital structure has been increased to an amount which can be regarded as adequate in the circumstances. Please advise the applicant bank accordingly."

Approved.

Letter dated July 2, 1934, approved by five members of the

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Second National Bank of Orange', Orange, New Jersey, from \$300,000 to \$150,000, pursuant to a plan which provides that the bank's capital shall be increased by \$250,000 of Class 'A' preferred stock to be sold to the Reconstruction Finance Corporation and by \$75,000 of Class 'B' preferred stock to be sold to local interests, and that the released capital, together with the entire amount of the bank's undivided profits account, shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in your memorandum of June 23, 1934.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that your examiner severely criticized the bank's management, stating that in his opinion any recapitalization program would be futile unless the present executive personnel were replaced by competent officers. It is assumed, however, that you have this condition in mind and will take appropriate steps toward effecting necessary corrections in connection therewith."

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 Pennsauken Township National Bank of North Merchantville', North Merchantville, New Jersey, from \$50,000 to \$25,000, pursuant to a plan which provides that the released capital shall be used to eliminate \$5,000 of unsatisfactory assets and to provide a reserve for losses of \$20,000, all as set forth in your letter of June 21, 1934."

Approved.

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

"In accordance with the recommendation of Acting Comptroller of the Currency Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of McIntosh', McIntosh, Minnesota, from \$30,000 to \$20,000, pursuant to a plan which provides that the bank's capital shall be

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"increased by \$30,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with a portion of the bank's undivided profits and reserves and a payment of \$5,000 to be made on the existing guaranty, shall be used to eliminate unsatisfactory assets, all as set forth in Mr. Awalt's memorandum of June 20, 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 Joplin', Joplin, Missouri, from \$250,000 to \$150,000, pursuant to a plan which provides that the bank's capital shall be increased by \$150,000 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 memorandum of June 20, 1934.

"In considering the plan under which the reduction in common capital stock is to be effected, it was noted that your examiner criticises the active officers as being exceptionally weak and lacking in aggressiveness. It is assumed, however, that you have this condition in mind and that whenever it becomes feasible to do so you will effect such corrections as may be practicable."

Approved.

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

"In accordance with the recommendation contained in Mr. Awalt's memorandum of June 20, 1934, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Durango', Durango, Colorado, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$100,000 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. The plan also provides for the purchase for cash by shareholders of the bank of \$20,000 of questionable assets.

"In considering the plan under which the proposed reduction in common capital stock is to be effected, it was noted that your examiner criticizes the management of the bank as incompetent

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"and financially irresponsible. It is assumed, however, that you have this condition in mind and that as soon as it is feasible to do so you will effect such corrections as may be practicable.

"The plan of reduction in common capital hereby approved, supersedes the one approved by the Board on February 23, 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 Wamego', Wamego, Kansas, from \$75,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by \$25,000 of Class 'A' preferred stock to be sold to the Reconstruction Finance Corporation and by \$25,000 of Class 'B' preferred stock to be sold to local interests, and that the released capital, together with approximately \$10,000 from the bank's undivided profits account, shall be used to eliminate unsatisfactory assets in the amount of approximately \$60,000, all as set forth in Mr. Awalt's memorandum of June 19, 1934.

"The plan of reduction in common capital hereby approved supersedes the one approved by the Board on December 22, 1933."

Approved.

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

"In accordance with Mr. Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Joplin National Bank and Trust Company', Joplin, Missouri, from \$250,000 to \$200,000, 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 shall be used to eliminate approximately \$22,553 of unsatisfactory assets and to establish a reserve for contingencies with the remainder, all as set forth in Mr. Awalt's memorandum of June 20, 1934."

Approved.

Memorandum dated June 28, 1934, from Mr. Vest, Assistant Counsel, suggesting that statements in the form attached to the memorandum

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be released to the press and be published in the next issue of the Federal Reserve Bulletin in regard to rulings recently made by the Federal Reserve Board with respect to membership in the Federal Reserve System of trust companies doing substantially no banking business, and the question whether a company engaged in issuing and selling its own obligations secured by real estate mortgages is a securities company within sections 20 and 32 of the Banking Act of 1933. The memorandum stated that it was assumed that in all cases of this kind statements will not be released to the press until sufficient time has elapsed to advise all Federal reserve banks with respect to the matter.

Approved.

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

"Reference is made to your letter of June 15 advising that the Citizens Bank, Claxton, Georgia, although formally taken over for liquidation by the Superintendent of Banks of Georgia has not applied for cancelation of its stock of the Federal Reserve Bank of Atlanta.

"It is noted that the Citizens Bank had entered into a contract in December, 1932, with The First National Bank of Claxton whereby the latter bank assumed all of the liabilities of the former bank, taking as security all of the assets of the Citizens Bank, that The First National Bank of Claxton is now in receivership, and that there is a controversy between the receiver and the Superintendent of Banks of Georgia as to the ownership of the assets transferred from the Citizens Bank to The First National Bank of Claxton. It further appears that for several months plans have been under way looking to a reopening of The First National Bank of Claxton upon conditions satisfactory to the Comptroller of the Currency and to the Superintendent of Banks, in which event there would be no question as to the right to receive the proceeds of the Federal Reserve bank stock.

"In view of the circumstances outlined in your letter, the Board approves your recommendation that no action be taken with respect to the cancelation of the stock of the Federal Reserve Bank of Atlanta outstanding in the name of the Citizens Bank,

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"Claxton, Georgia, until October 1, 1934, or until such shorter time as may be required for a definite determination as to whether The First National Bank of Claxton is to reopen."

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Re Board's letter August 30, 1933, X-7573. Since the authorization for the payment of a \$10 fee for each report of examination of a national bank furnished to Federal reserve banks expired at close of June 30, 1934, the Board understands that the payment of a fee of \$5 for each such report of examination would be resumed automatically effective July 1, 1934, and has taken no further action regarding the matter."

Approved.

Telegram, prepared in accordance with the action taken at the meeting of the Board on July 2, 1934, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"As more than a year has elapsed since the survey made by you and other Federal reserve agents at the Board's request as a basis for its action with respect to interest rates paid on time and savings deposits, the Board is desirous of having the benefit of a current report from you showing the present situation in your district as to such rates of interest, indicating the trend as to changes, with the reasons therefor as given by the banks, together with such information and comments as you may think helpful regarding the competitive aspects of the situation. If mutual savings banks are an important factor in your district it is desired that the situation as to their interest rates be discussed specifically. Any inquiries that may be deemed desirable as a basis for your report should be made discreetly and without resort to publicity. The Board of course will be glad to receive any suggestions you may desire to make after consultation with the other directors and officers of your bank."

Approved.

Letter to Mr. Sidney M. Wittner, New York, New York, reading as follows:

"Your letter of June 12, 1934, addressed to the Comptroller

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"of the Currency, has been referred to the Federal Reserve Board for reply. You inquire whether the Central Hanover Bank & Trust Company is required to pay interest on certain deposits which belong to the estate of Arthur I. Gardner, deceased. You state that these funds have been on deposit since on or about February, 1932, and that, 'Although the Executors have the power to draw funds for the payment of disbursements, no general distribution can be made until a decree of the Surrogate's Court is obtained.'

"There is nothing in the Federal Reserve Act or in the Board's regulations issued pursuant thereto which requires a State member bank of the Federal Reserve System to pay interest on deposits. However, the question whether the member bank may lawfully pay interest on such deposits must be determined by reference to the provisions of the last two paragraphs of Section 19 of the Federal Reserve Act and of the Board's regulations issued thereunder.

"Section 19 of the Federal Reserve Act forbids a member bank, directly or indirectly, to pay any interest on a deposit which is payable on demand, except in accordance with a contract entered into in good faith prior to June 16, 1933, and in force on that date; and member banks are required to eliminate from such contracts provisions for the payment of interest on deposits payable on demand as soon as possible consistently with their contractual obligations. From the facts submitted, it does not appear that interest is required to be paid on the deposits in question pursuant to any such contract or that the payment of interest on such deposits would come within the exception aforesaid.

"The provisions of the last two paragraphs of said Section 19 also except deposits of certain other kinds from the prohibition upon the payment of interest on deposits payable on demand, but deposits belonging to the estate of a deceased person would not appear to come within any of the exceptions mentioned in the statute and the Federal Reserve Board has no authority to make any additional exceptions to the provisions of law forbidding the payment of interest on deposits payable on demand.

"Member banks may lawfully pay interest on time and savings deposits, but under said Section 19 the Federal Reserve Board is authorized to limit by regulation the rate of interest which may be paid by member banks on such deposits. In its Regulation Q, a copy of which is inclosed herewith, the Board has prescribed that no member bank shall pay interest, accruing after October 31, 1933, on any time or savings deposit at a rate in excess of 3 per cent per annum, compounded semi-annually, regardless of the basis upon which such interest may be computed, subject to an exception which does not appear to be pertinent to this inquiry.

"You will observe that under Regulation Q a deposit cannot be classified as a time deposit unless it is payable on a certain date not less than 30 days after the date of the deposit, or upon written notice required to be given a certain specified number of

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"days, not less than 30 days, before the date of repayment, and that a deposit does not constitute a savings deposit unless the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before a withdrawal is made. Even though no general distribution can be made of the deposits in question until a decree of the Surrogate's Court is obtained, it does not appear that the member bank has the right to require requisite notice of withdrawal, or that the deposits in question otherwise comply with the requirements of the Board's regulations in respect to time or savings deposits, and accordingly, the fact that no general distribution of such funds can be made until a decree of the Surrogate's Court is obtained is not sufficient to constitute the deposits in question either time deposits or savings deposits. From the facts submitted, therefore, the Board is unable to find that the deposits are of a kind upon which interest may lawfully be paid by the member bank under the law and the Board's Regulation Q."

Approved.

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

"This refers to Mr. Fletcher's letter of April 9, 1934, with inclosures, in regard to the question whether the method used by The Southern Ohio Savings Bank and Trust Company, Cincinnati, Ohio, in handling deposits of funds accumulated for bona fide thrift purposes is in accord with the provisions of section 19 of the Federal Reserve Act and of the Board's Regulation Q. It is understood that the bank retains the savings pass books issued upon the deposit of funds and that the funds evidenced thereby may be withdrawn in whole or in part by check or by non-negotiable receipt. It is also understood that it is the contention of the bank that its retention of a pass book constitutes the bank or any employee thereof the agent of the drawer for the purpose of presenting the pass book whenever a withdrawal is made, and that this procedure is permissible under the law and the Board's regulations.

"Under the definition contained in Section V(a) of the Board's Regulation Q, a deposit may not be classified as a 'savings deposit' if it does not consist of funds in respect to which the pass book or other form of receipt evidencing such deposit must be presented to the bank whenever a withdrawal is made. A deposit in respect to which the pass book or other form of receipt is retained by the bank or by an officer, employee, or agent thereof, rather than by the depositor, does not comply with this requirement. Accordingly, it is the opinion of the Board that such a deposit does not constitute a 'savings deposit', but must be considered a deposit payable on demand.

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"In a ruling published on page 609 of the Federal Reserve Bulletin for August, 1927, the Board considered the question whether accounts of a certain member bank which were subject to check without the presentation of the pass book, which in some cases was retained by the bank in order to make it unnecessary for the depositor to present the pass book with each withdrawal, might properly be classified as savings accounts for reserve purposes, and the Board ruled that such deposits could not be so classified. The Board stated that a pass book is the depositor's receipt, that the apparent purpose of its retention by the bank was to render the account subject to check without the necessity of presenting the pass book, and that an account subject to check in such manner could not properly be classified as a savings account within the meaning of section 19 of the Federal Reserve Act.

"It is believed that the principles involved in that ruling are properly applicable to the instant situation and that the retention of a savings pass book by a member bank for a continuing period of time in order to avoid the necessity of the depositor's presenting such pass book each time a withdrawal is made is not in accord with the purpose of section 19 of the Federal Reserve Act and does not comply with the requirements of Regulation Q. Accordingly, it is the opinion of the Board that deposits represented by savings pass books which are retained by the bank cannot be regarded as 'savings deposits' for the purpose of determining whether interest may lawfully be paid thereon. For similar reasons, such deposits may not be considered 'savings accounts' for the purpose of computing reserves thereon.

"It is noted that Mr. Lazar, Cashier of the Cincinnati Branch of the Federal Reserve Bank of Cleveland, in his letter to Mr. Fletcher of April 6, 1934, stated that he has expressed the opinion to the President of The Southern Ohio Savings Bank and Trust Company that an out-of-town customer may draw a check against his savings account, provided the pass book is attached to such check, thereby constituting the presenting bank the agent of the holder. In the Board's opinion, the drawing of negotiable checks against a savings deposit in the manner described and the payment of such checks accompanied by the pass book by the drawee bank is not prohibited by the law or the Board's Regulation Q, provided, of course, that the passbook is promptly returned to the depositor and is not thereafter retained by the bank as a basis for future withdrawals."

Approved.

Letter dated July 2, 1934, approved by five members of the Board, to the Secretary of the Treasury, reading as follows:

"Reference is made to your letter of June 7th in regard to

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"the figures as to loans reported by member banks.

"In this connection you may be interested in certain figures recently compiled for weekly reporting member banks in New York City, Minneapolis, St. Paul and Duluth. These figures represent the aggregate of increase in loans, other than to brokers and dealers in securities, as reported by each of the reporting member banks by weeks from January 3 to June 6, 1934. The calculation represents an adding up of increases for each bank week by week whenever they occur without deduction for decreases that may occur in other weeks, and this is done on the supposition that increases represent new loans over and above repayments and decreases represent repayments over and above new loans.

"It is clear, of course, that these figures represent only a part of the new loans granted during the period. For this reason it is interesting to note that for New York City such additional loans made during the period from January 3 to June 6 amounted to \$771,000,000, for Minneapolis \$19,000,000, for St. Paul \$9,000,000 and for Duluth \$1,000,000.

"I am of opinion that to get accurate information we should secure from each member bank information showing, first, the amount of loans paid off since January 1st, 1934, and second, the amount of new loans made since that date. I should like your views as to this idea for fuller and more definite information."

Approved.

Letter to Mr. Ralph C. Gifford, President of the Kentucky

Title Trust Company, Louisville, Kentucky, reading as follows:

"Receipt is acknowledged of your letter of June 28, 1934, in which you advised that the Kentucky Title Trust Company of Louisville, Kentucky, discontinued the sale of its debentures to the public on June 15, 1934. In connection with this matter you requested advice as to whether it is permissible for the Kentucky Title Trust Company to issue a new bond or a renewal bond to the holder of an outstanding bond which is maturing or is being called prior to maturity.

"The Federal Reserve Board has heretofore considered in comparable circumstances the question you presented, and is of the opinion that, if the Kentucky Title Trust Company confines its activities in issuing new or renewal bonds exclusively to the issuance of such new or renewal bonds to the holders of maturing or called bonds solely in exchange for and in renewal of such bonds, it would not be considered as engaged principally in the business of a securities company within the meaning of Section 20 of the Banking Act of 1933. You will understand, of course, that the Board's position in this matter does not contemplate that your company will issue and sell its bonds generally to the public even though such transactions are for the purpose of

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"enabling the company to meet its maturing obligations upon bonds previously issued."

Approved.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"The Board has written to a number of individuals who have filed applications under Section 32 of the Banking Act of 1933, advising them that it was unable to find that the relationships covered by the respective applications were not incompatible with the public interest, and stating, pursuant to Section IV(g) of Regulation R, that it was prepared to give consideration to any further facts or arguments which the applicants might desire to submit in connection with their applications. In the circumstances, such applications cannot be regarded as finally disposed of until definite advice is received in each case that the applicant has brought his relationships into compliance with the requirements of that section; and the purpose of this letter is to outline the steps which will be necessary to accomplish that result.

"1. Where replies have been received by the Board stating that the applicant is resigning from one of the institutions involved in his application, a copy of such reply will be forwarded to you in order that you may ascertain when the resignation becomes effective and advise the Board in order to complete its records.

"2. Where the applicant writes to you instead of to the Board stating that he is resigning from one of the institutions involved, it will be appreciated if you will ascertain when the resignation takes effect and advise the Board in order that its records may be complete.

"3. Where an applicant writes the Board requesting further consideration of the application, you will receive from the Board a copy of the applicant's letter and a copy of such reply thereto as the Board may make so that, if the application is denied, you may ascertain what steps the applicant takes pursuant to the Board's reply and advise the Board in order to complete its records.

"4. In the remaining cases, unless it appears that there is some reason why the matter should be dealt with otherwise, it will be appreciated if you will ascertain what action the applicant takes in view of the Board's letter and advise the Board, in order that the matter may be closed.

"The above procedure contemplates that, in each case, your files, as well as those of the Board, will contain evidence that the matter is closed and that the relationships in question have

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"been brought into conformity with the requirements of the section."

Approved.

Letter to Mr. C. T. Young, President of The First National Bank and Trust Company of Ossining, New York, reading as follows:

"The Federal Reserve Board has received your letter of June 25, 1934, regarding the applications for permits under Section 32 of the Banking Act of 1933 made by Mr. James H. Carter to serve as a director of The First National Bank and Trust Company of Ossining and as a partner of Carter & Co., New York, New York, and of Mr. Buchanan Houston to serve as a director of that bank and as a partner of H. T. Carey & Co., New York, New York.

"You state that those gentlemen have been served with notice that they are no longer eligible as members of your Board and point out that their removal imposes a hardship on your bank on account of the difficulty in finding other men of their banking or financial ability in the community in which your bank is located. You also state that their service to the bank has been impartial and unbiased, that they never have made any effort to dictate the investment policy of the bank and that, since both of the above-mentioned firms are commission brokers, you believe neither comes within the provisions of Section 32.

"Your attention, however, is invited to the fact that Section 8A of the Clayton Antitrust Act prohibits a director, officer or employee of a national bank from serving as a member of a partnership which shall make loans secured by stock or bond collateral. The Board has expressed the opinion that the carrying of margin accounts involves the making of loans secured by stock or bond collateral within the meaning of Section 8A; and accordingly, even though an organization is not of the kind to which the provisions of Section 32 are applicable if the firm carries margin accounts it falls within the prohibitory provisions of Section 8A of the Clayton Act. If either Carter & Co. or H. T. Carey & Co. carries such accounts, and the statements submitted in support of the above-mentioned applications indicate that such is the case, service as a director of The First National Bank and Trust Company of Ossining, and as a partner of either of those firms which carries such margin accounts, constitutes a relationship coming within the prohibitory provisions of Section 8A.

"Although the Board is authorized by Section 8 of the Clayton Act to grant permits for the continuance of similar relationships between two or more banking institutions, it has no authority to grant permits covering such relationships between national banks and partnerships or corporations which are not engaged in the banking business. Inasmuch as neither of the brokerage firms mentioned above is engaged in the banking business, the Board

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"has no authority to issue a permit to either applicant covering his service to The First National Bank and Trust Company of Ossining and to his firm.

"The Board appreciates your reasons for wishing to retain the service of those gentlemen as directors of your bank, but it believes that Section 8A is properly susceptible of no other construction than that which has been given to it and that the Board has no power to permit the relationships to continue if those firms make loans secured by stock or bond collateral in connection with the carrying of margin accounts or otherwise. In the event that those firms make such loans, it will be necessary for Mr. Carter and Mr. Houston to sever their relationships either with The First National Bank and Trust Company of Ossining or with the stock brokerage firms of which they are partners in order to comply with the provisions of the law."

Approved.

Letter to Mr. F. L. Lipman, President of the Wells Fargo Bank & Union Trust Co., San Francisco, California, reading as follows:

"Reference is made to your letter dated May 25, 1934, addressed to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, regarding the application of Mr. Edward H. Heller under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of the Wells Fargo Bank & Union Trust Co., and as a partner in Schwabacher & Co., both of San Francisco, California.

"On May 3, 1934, the Federal Reserve Board notified Mr. Heller that on the basis of the information contained in his application, it appeared that no permit should be granted covering the above relationship, but invited him to submit further facts or arguments in support of his application.

"Careful attention has been given by the Board to the statement in your letter concerning the fact that Mr. Heller is a large stockholder and a valuable director of your bank. Your statement that Mr. Heller and his mother own over 4,000 shares out of 90,000 shares of the bank's stock outstanding, and that his family has for many years been closely associated with the bank, has also been considered.

"However, the position taken by the Board in its letter to Mr. Heller 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 Congress had in mind in enacting Section 32. The Federal Reserve Board believes that it was the purpose of Congress in enacting that section to terminate relationships of the types described therein between member banks and dealers in securities

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"apparently because it was thought that such relationships might have a tendency to influence the credit and investment policies of member banks; and, in view of the policy thus declared by Congress, the Board believes that, except in unusual circumstances which clearly are not within the intent of the law, it should not issue permits authorizing relationships which fall within the prohibitions of the section. Although nothing has been presented to the Board which would show that Mr. Heller's interlocking relationship has resulted in any of the undesirable practices which Congress sought to prevent, nevertheless the relationship appears to be within the class at which the provisions of Section 32 were directed.

"While the Board is not unsympathetic with your desire to have Mr. Heller continue to serve as a director of your bank, it believes that your letter of May 25, 1934 states no facts which justify an exception in his case. Accordingly, for the reasons stated above, the Board is unable to find that it would not be incompatible with the public interest to grant Mr. Heller's application."

Approved.

Letter to Mr. Walter S. Heller, San Francisco, California, reading as follows:

"Reference is made to your letter of May 26, 1934, with regard to your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of Wells Fargo Bank & Union Trust Co., and as an officer of Heller, Bruce and Company, both of San Francisco, California.

"In your letter you stated that additional arguments in support of your application would be submitted by the Wells Fargo Bank & Union Trust Co. The Federal Reserve Board has received a letter dated May 25, 1934, from Mr. F. L. Lipman, President of the Wells Fargo Bank & Union Trust Co., addressed to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, containing additional facts and arguments concerning your application.

"The Board has noted Mr. Lipman's statements to the effect that you are one of the substantial stockholders of the bank, that you have always taken an interest in the bank's progress, and that you have furnished to the bank information regarding investments. However, the position taken by the Board upon your application in its previous letter 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 Congress had in mind in enacting Section 32. The Federal Reserve Board believes that it was the purpose of Congress in enacting that section to terminate relationships of the types

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"described therein between member banks and dealers in securities apparently because it was thought that such relationships might have a tendency to influence the credit and investment policies of member banks; and, in view of the policy thus declared by Congress, the Board believes that, except in unusual circumstances which clearly are not within the intent of the law, it should not issue permits authorizing relationships which fall within the prohibitions of the section. Although nothing has been presented to the Board which would show that your interlocking relationship has resulted in any of the undesirable practices which Congress sought to prevent, nevertheless the relationship appears to be within the class at which the provisions of Section 32 were directed.

"While the Board is not unsympathetic with your desire to serve the above named institutions, it believes that Mr. Lipman's letter of May 25, 1934, states no facts which 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, together with a letter to Mr.
F. L. Lipman, President of the Wells Fargo
Bank & Union Trust Co., San Francisco, Cali-
fornia, reading as follows:

"Reference is made to your letter dated May 25, 1934, addressed to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco, regarding the application of Mr. Walter S. Heller under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of Wells Fargo Bank & Union Trust Co., and as an officer of Heller, Bruce and Company, both of San Francisco, California.

"On May 15, 1934, the Federal Reserve Board notified Mr. Heller that on the basis of the information contained in his application, it appeared that no permit should be granted covering the above relationship, but invited him to submit further facts or arguments in support of his application. Your letter was apparently written in response to this invitation.

"The Board has carefully considered your statement that Mr. Heller is one of the substantial stockholders of your bank, and that he has furnished to your bank valuable information regarding investments. However, the position taken by the Board in its letter to Mr. Heller 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 Congress had in mind in enacting Section 32. The Federal Reserve Board believes that it was the purpose

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"of Congress in enacting that section to terminate relationships of the types described therein between member banks and dealers in securities apparently because it was thought that such relationships might have a tendency to influence the credit and investment policies of member banks; and, in view of the policy thus declared by Congress, the Board believes that, except in unusual circumstances which clearly are not within the intent of the law, it should not issue permits authorizing relationships which fall within the prohibitions of the section. Although nothing has been presented to the Board which would show that Mr. Heller's interlocking relationship has resulted in any of the undesirable practices which Congress sought to prevent, nevertheless the relationship appears to be within the class at which the provisions of Section 32 were directed.

"While the Board is not unsympathetic with your desire to have Mr. Heller continue to serve as a director of your bank, it believes that your letter of May 25, 1934 states no facts which justify an exception in his case. Accordingly, for the reasons stated above, the Board is unable to find that it would not be incompatible with the public interest to grant Mr. Heller's application."

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

Mr. R. E. Barron, for permission to serve at the same time as an officer and director of the First National Bank in Minot, Minot, North Dakota, and as a director of the First State Bank, Burlington, North Dakota.

Approved.

Letter to an applicant for a permit under the Clayton Act,

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advising of approval of his application as follows:

Mr. Mark W. Norman, for permission to serve at the same time as a director of The First-Stamford National Bank and Trust Company, Stamford, Connecticut, and as a director and officer of The Home Bank and Trust Company, Darien, Connecticut.

Approved.

There were then presented the following applications for changes

in stock of Federal reserve banks:

<u>Applications for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
The First National Bank of Green Lane, Green Lane, Pennsylvania	45	45
<u>District No. 8.</u>		
The First National Bank in Madison, Madison, Illinois	36	36
	<u>Total</u>	<u>81</u>

Approved.

Thereupon the meeting adjourned.

Crestor Morill
Secretary.

Approved:

J. J. [Signature]
Chairman, Executive Committee.