

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Friday, July 6, 1934, at 2:30 p. m.

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

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

The Committee considered and acted upon the following matters:

Telegrams dated July 3, 1934, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, July 5, 1934, from Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, and July 6, 1934, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, all advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letter to Mr. L. S. Myrick, Technical Assistant in the Board's Division of Bank Operations, reading as follows:

"The Federal Reserve Board authorizes and directs you to perform during the year ending December 31, 1934, within the limits of the continental United States, such travel as may be necessary in your capacity as Technical Assistant for the Federal Reserve Board under instructions from the Chief of the Division of Bank Operations.

"While absent from your official headquarters you will be reimbursed your actual necessary transportation expenses, not including gratuitous fees or tips of any kind, and \$5.00 per diem in lieu of subsistence, in accordance with the Standardized Government Travel Regulations as modified by the Executive Order of the President, dated June 30, 1932."

Approved.

Letter, prepared in accordance with the action taken at the

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meeting of the Board on July 2, 1934, to Mr. Case, Chairman of the Federal Reserve Bank of New York, reading as follows:

"Upon receipt of your letter of June 28 in regard to Mr. Carl Snyder it was brought to the attention of the Board and was discussed at a Board meeting. Reference was made to occasions upon which the subject of Mr. Snyder's compensation had been considered in the past and particularly to the Board's position as set forth in my letters of January 23 and June 13. In the course of the discussion special attention was directed to a statement in the second paragraph of your letter that the request of your directors to the retirement committee of the retirement system of the Federal reserve banks for the retention of Mr. Snyder 'contemplated that he will be retained only until April 23, 1935, or for one year after the date upon which he reached the retirement age'. On the basis of this statement and in view of all the circumstances, the Board concluded to approve the continuation of the payment of salary to Mr. Snyder at the present rate, \$11,000 per annum, until April 23, 1935, and requested me to advise you accordingly."

Approved.

Telegram to Governor Fancher of the Federal Reserve Bank of Cleveland, reading as follows:

"Referring Mr. Szymczak's telephone conversation with me this morning Board approves appointment by Federal Reserve Bank of Cleveland of following five members of Industrial Advisory Committee for the fourth Federal reserve district: H. L. Kutter, Hamilton, Ohio; Frank B. Bell, Oakmont, Pennsylvania; F. A. Smythe, Lorraine, Ohio; Daniel R. Davies, Cleveland, Ohio, and Edward C. Folsom, Toledo, Ohio."

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 Fruit Growers State Bank, Saugatuck, 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

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"will affect its membership in the Federal Reserve System. While the Board interposes no objection to this reorganization, it has been noted that, under one of the conditions thereof, the bank purchased ten shares of stock in the Saugatuck 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 Saugatuck 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 Saugatuck 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 dated July 5, 1934, approved by three members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of June 8, 1934, in regard to the application of 'The Central National Bank at Battle Creek', Battle Creek, Michigan, for permission to exercise fiduciary powers.

"The Board has given further consideration to the pending application, and, in view of the many unsatisfactory features existing in this institution both as regards its general condition and the character of its management, is unwilling to grant it fiduciary powers at this time. The Board, therefore, in accordance with the recommendation of your executive committee, in which the Comptroller of the Currency concurs, will defer action on the pending application until the bank has been in operation for at least one year, and a report of examination by a national bank examiner made subsequent to such period is available, at which time it will be glad to have the benefit of any further recommendation you may wish to make in the premises. Please advise

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"the applicant bank of the Board's action."

Approved.

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

"Reference is made to the letter addressed to you under date of June 22, 1934, by Mr. H. R. Kibbee, President, Commercial Trust and Savings Bank, Mitchell, South Dakota, in which reconsideration is asked of the bank's application for permission to exercise trust powers.

"The Board has reviewed the information available in this case, special consideration being given to the condition of the applicant bank as revealed by the last report of examination, made as of January 6, 1934. That report reflects a very unsatisfactory condition, the total of estimated losses, securities depreciation and doubtful assets being sufficient to eliminate the bank's surplus, profits and reserves and impair the capital of \$100,000 to the extent of approximately \$74,500.

"It is understood that the Reconstruction Finance Corporation has approved the purchase of \$100,000 of capital debentures of this bank, provided the full amount be issued in order to strengthen its capital structure, but until this is done, and adequate arrangements are completed for eliminating or otherwise satisfactorily providing for the existing excessive volume of undesirable assets, it is felt that the bank should not take on additional duties and responsibilities through the exercise of trust powers but should devote its undivided attention to correcting its present unsatisfactory condition.

"In view of the foregoing, and inasmuch as the bank's need for trust powers does not appear to be urgent, the amount of potential trust business being small, nor does it appear that the bank's official staff is especially qualified to handle trust business, the Board is unwilling to approve the pending application at this time. In the event, however, that the applicant bank completes an adequate program of rehabilitation of its financial condition and makes a satisfactory showing as to the qualifications of its management the Board would be willing to consider the advisability of granting to it such specific fiduciary powers as would enable it to care for the types of business which Mr. Kibbee's letter states is available to the bank."

Approved.

Letter dated July 5, 1934, approved by three members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

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"with reference to the proposed reduction in the common capital stock of 'The First National Bank of Columbus', Columbus, Indiana, which was approved by the Board on May 3, 1934, pursuant to a plan which provided among other things that \$11,500 would be raised locally for the purpose of purchasing a corresponding amount of unsatisfactory assets from the bank.

"You advise that due to recoveries and adjustments effected since the date of examination of the bank, it will be necessary for the local interests to purchase only \$5,579 of unsatisfactory assets in order to complete the program of rehabilitation, instead of \$11,500 as originally contemplated.

"In accordance with your recommendation, the Board amends its previous approval to provide that the amount of unsatisfactory assets to be purchased by local interests be reduced from \$11,500 to \$5,579, with the understanding that the other provisions of the plan as originally submitted remain unchanged."

Approved.

Letter dated July 5, 1934, approved by three members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Petersburg', Petersburg, Indiana, from \$50,000 to \$25,000, pursuant to a plan which provides for the use of the released capital, together with \$20,000 of the bank's surplus account, in eliminating approximately \$45,000 of substandard assets, 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 First National Bank of Chippewa Falls', Chippewa Falls, Wisconsin from \$100,000 to \$50,000 pursuant to a plan which provides that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in your memorandum of June 22, 1934."

Approved.

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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 Liberty National Bank of Dickinson', Dickinson, North Dakota, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by \$25,000 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, and provides also, that the directors use \$15,300 of their subordinated deposits to purchase the bank's other real estate carried at approximately \$13,000 and other unsatisfactory assets of approximately \$2,300, all as set forth in your memorandum of June 22, 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 Central National Bank of Junction City', Junction City, Kansas, from \$100,000 to \$25,000, 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 \$85,000, 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 First National Bank of Brenham', Brenham, Texas, 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 funds released through the reduction in the common capital shall be used to eliminate or reduce a corresponding amount of undesirable

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"assets, 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 your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Montesano', Montesano, Washington, from \$50,000 to \$7,500, pursuant to a plan which provides for the sale at par of \$42,500 preferred stock to the Reconstruction Finance Corporation and others, the surrender of all the common stock and the resale of \$7,500 of such surrendered stock, and the use of the released capital, together with approximately \$6,000 of the bank's undivided profits in eliminating or reducing undesirable assets, all as set forth in your letter of June 22, 1934."

Approved.

Telegram dated July 5, 1934, approved by three members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, stating that the Board has given consideration to the application of the "Coraopolis Trust Company", Coraopolis, Pennsylvania, for a voting permit under the authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The Coraopolis National Bank", Coraopolis, Pennsylvania, and has authorized the issuance of a limited permit to the applicant for the following purposes:

"To authorize the issuance by such bank of common stock and/or preferred stock of one or more classes, in such amounts and with such par values as may be approved by the Comptroller of the Currency and the Federal Reserve Agent or the Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, and to make such amendments to its Articles of Association as may be necessary for this purpose, at any meeting of shareholders of such bank, or at any adjournment thereof, at any time prior to October 1, 1934."

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The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Coraopolis Trust Company, a limited voting permit in accordance with the telegram. The telegram stated also that, in authorizing the permit referred to, the Board assumes that the agreements required by subdivisions 1 and 2 under the letter C of the Board's ANCIGAR telegram of January 4, 1934, authorizing the issuance of a limited permit to the Coraopolis Trust Company entitling it to vote its stock in The Coraopolis National Bank, have been satisfied, and that the agreement required in subdivision 3 thereof will be duly satisfied; that if this assumption is not proper, the agent is requested to withhold the issuance of the permit hereby authorized and to advise the Board in detail as to the extent such agreements are not or will not be satisfied and the reasons therefor; and that if this assumption is proper, the agent is requested to furnish the Board with information as to such compliance.

Approved.

Memorandum addressed to Governor Black by Mr. Wyatt, General Counsel, under date of June 22, 1934, stating that Mr. O'Connor of the United States Chamber of Commerce called him on the telephone on that date and said that the Chamber of Commerce has received a large number of inquiries from business concerns all over the United States regarding the new loans to industry to be made by the Federal reserve banks and the Reconstruction Finance Corporation; that the Chamber of Commerce is very anxious to decentralize its work in this connection by furnishing the local chambers of commerce full information on the subject and

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arranging for them to answer inquiries instead of having all of the inquiries come to Washington; and that to this end he is preparing to mail to all local chambers of commerce copies of the Board's regulations and those of the Reconstruction Finance Corporation, together with a circular letter prepared by the Chamber of Commerce. The memorandum stated also that Mr. O'Connor would like very much to have for the use of the United States Chamber of Commerce 3,000 copies of the Board's Regulation S; that Mr. Wyatt advised Mr. O'Connor he thought it could be arranged to furnish him with such copies, and that he believed it would be distinctly in the Board's interest to permit the Chamber of Commerce to distribute such regulations, since it would cut down the number of inquiries received by the Board and the Federal reserve banks.

Mr. Wyatt was authorized by four members of the Board on July 5, 1934, to furnish Mr. O'Connor with 3,000 copies of the Board's Regulation S for the purpose set forth in Mr. Wyatt's memorandum.

Letter dated July 5, 1934, approved by three members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"At its recent conference with the Chairmen and Governors of the Federal reserve banks the Federal Reserve Board considered the new responsibilities placed upon the System by the Securities Exchange Act of 1934. This act gives the Federal Reserve Board authority to determine the margins to be required by brokers and dealers in extending credit to their customers, and also empowers the Board, within certain limitations, to prescribe rules and regulations, including margin requirements, for loans extended by other persons, including banks, for the purpose of purchasing or carrying securities registered on national securities exchanges.

"Margin requirements do not become effective before October 1, 1934, and the Board's regulations on the subject will not be issued for several weeks.

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"In the case of brokers the law lays down a standard of margins, which shall constitute the basis of the Board's regulations, although the Board is given authority to prescribe lower requirements, if it deems it necessary or appropriate for the accommodation of commerce and industry, with due regard to the general credit situation in the country, and to prescribe higher margins if it deems it necessary or appropriate in order to prevent the excessive use of credit to finance transactions in securities. In the case of other lenders on securities, including banks, no standard is specifically laid down in the law, the margins to be prescribed being left to the Board's discretion.

"The fundamental principle by which the Board is to be guided in determining margin requirements and in formulating its regulations is stated in the law. The Board is directed to enforce its new powers for the purpose of preventing the excessive use of credit for the purchase or carrying of securities. This principle is in line with the provisions of the Banking Act of 1933, which in several sections places special responsibility on the Federal reserve banks and the Federal Reserve Board in connection with excessive use of bank credit in the security markets. The law imposes upon the Federal Reserve Board no duties in connection with the supervision of the stock exchanges or the prevention of undesirable practices among members of such exchanges. Responsibility for these matters is placed upon the Securities and Exchange Commission. The Federal Reserve Board's duty under this act relates chiefly to the determination of margins to be required on security loans, a power to be exercised as a part of the Federal Reserve System's general credit policy of controlling undue credit expansion in the security markets.

"In so far as banks are concerned, the Federal Reserve Board's authority under this act relates to loans made for the purpose of purchasing or carrying securities registered on national securities exchanges. It does not apply, therefore, to loans made solely for industrial, agricultural, or commercial purposes, regardless of the question whether these loans are secured or unsecured, and, if secured, regardless of the character of the collateral. The determining factor is the purpose of the loan and not the nature of the security offered. If a loan is collateralized by stocks or other equity securities and is made for the purpose of purchasing or carrying securities registered on a national securities exchange, it comes under this section of the act; if it is made for any other purpose, then it is exempt. The Board's power under this section, furthermore, does not apply to loans on exempted securities, which are defined by the law as including among other securities obligations of the United States, or of any State or political subdivision, and such other securities as the Securities and Exchange Commission may declare to be exempted securities. The power of the Board is further limited by exempting bank loans on securities other than equity securities, which means in practice that it is

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"not applicable to loans on bonds, except bonds such as those having conversion privileges, and there are certain other exemptions. In general, the law, in so far as it applies to control over banks, is intended to prevent the banks from being used for the purpose of circumventing the margin requirements prescribed for loans extended by brokers to their customers, and to prevent undue expansion of bank credit employed in the securities markets.

"General banking practices in relation to loans for industrial, agricultural, or commercial purposes are not affected by this Act.

"Please transmit copies of this letter to all the banks in your Federal Reserve District."

Approved.

Letter to Honorable Paul John Kvale, House of Representatives,

reading as follows:

"This refers to your letter of June 18, 1934, addressed to the Comptroller of the Currency, with regard to a certificate of deposit, a copy of which you inclose, payable a certain number of months after date or at any time prior thereto upon 30 days notice in writing.

"In accordance with the provisions of Section 19 of the Federal Reserve Act, the Board's Regulation Q, a copy of which is inclosed herewith for your information, defines a time certificate of deposit as follows:

'(1) Time certificates of deposit - The term "time certificate of deposit" means an instrument evidencing the deposit with a bank of a certain sum specified on the face of the instrument payable to bearer or to any specified person or to his order-

(i) On a certain date, specified in the instrument, not less than 30 days after the date of the deposit, or

(ii) At the expiration of a certain specified time subsequent to the date of the instrument, in no case less than 30 days, or

(iii) Upon notice in writing which is actually required to be given a certain specified number of days, not less than 30 days, before the date of repayment, and

(iv) In all cases only upon presentation and surrender of the instrument.'

"While the Federal Reserve Board does not look with favor upon the use of certificates of deposit of the kind to which your letter relates, it appears that under the terms of the certificate the deposit cannot be withdrawn until after 30 days from the date of the deposit and, accordingly, the Board is of the opinion that such a certificate must be regarded as a time certificate of

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"deposit within the meaning of Section 19 of the Federal Reserve Act and of Regulation Q, upon which interest may lawfully be paid in accordance with the terms of the regulation. While the deposit may be withdrawn at any time upon the expiration of 30 days written notice actually given by the depositor, it would appear that, if such notice is not given, the deposit may not be withdrawn except upon the expiration of the period of months specifically mentioned in the certificate; so that it must be regarded either as a deposit payable only after 30 days written notice or as a deposit payable at the expiration of a certain specified time not less than 30 days subsequent to the date of the certificate. In either event it conforms to the above-quoted definition of a time certificate of deposit."

Approved.

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

"This refers to your letter of March 13, 1934, making certain inquiries with regard to the procedure you should follow in reporting possible violations of the provisions of Section 22(g) of the Federal Reserve Act.

"With reference to loans or extensions of credit made to its own executive officers by a State member bank in your district, you should, as indicated in your letter, proceed in accordance with the provisions of the Board's circular letter of July 22, 1933 (X-7518).

"In cases where it appears from information which has come to your attention through reports of examination or other official sources that a State member bank or a national bank in your district has made a loan to an executive officer of another State member bank in your district or has permitted that officer to become indebted to it within the purview of Section 22(g) of the Federal Reserve Act, you should ascertain whether the particular executive officer has filed with the chairman of the board of directors of his bank a report of the kind required by Section 22(g) of the Federal Reserve Act. If such a report has not been furnished, you should report the matter in the usual manner to the Board and the local United States Attorney as a possible violation of Section 22(g). It is suggested that you consider the advisability of obtaining through your examiners the required information as to whether a loan to an executive officer which comes to the attention of your office has been reported to the chairman of the board of directors of the member bank of which he is an executive officer, either at the time of the next examination of the member bank by which the executive officer is employed or by correspondence in connection with the examination of the bank making the loan.

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"Where it appears from such information that an executive officer of a State member bank in another Federal reserve district has obtained a loan or extension of credit from a State member bank or a national bank in your district, you should bring to the attention of the Federal Reserve Agent for that district such facts as you may have in your possession regarding the transaction in question and that Federal Reserve Agent should thereupon proceed in accordance with the procedure above set forth.

"However, where you have been advised that executive officers of a national bank in your district have borrowed from or have become indebted to a State member bank in the same or another Federal reserve district, the Board is of the opinion that it is only necessary for you to report such details of the transaction as you may have to the chief national bank examiner for your district for such action as he considers advisable. In this connection, your attention is directed also to the Board's letter of February 8, 1928 (X-5072).

"The Board appreciates that there may be cases in which executive officers of State member banks will borrow from non-member banks and that, except with the cooperation of the State banking authorities, information regarding such cases would not be available to you. Accordingly, it is suggested that, if you have not already done so, you acquaint the State banking authorities in your district with the provisions of Section 22(g) of the Federal Reserve Act and request that, if it is feasible to do so, they furnish you from time to time with any information they may have readily available regarding loans by non-member banks to executive officers of State member banks. If the State authorities do not feel that they can furnish you with such information they may be willing to take the matter up in each case with the State member bank involved."

Approved.

Letter to Mr. Frank Warner, Secretary of the Iowa Bankers Association, Des Moines, Iowa, reading as follows:

"This refers to your letter of June 13, 1934, in regard to the limitations and conditions as to dealing in investment securities and stock which are applicable in the case of State member banks under the provisions of section 9 of the Federal Reserve Act and of paragraph 'Seventh' of section 5136 of the Revised Statutes.

"Under the provisions of paragraph 'Seventh' of said section 5136, a national banking association may effect purchases and sales of investment securities without limitation, provided such purchase and sales are made without recourse, solely upon the

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"order, and for the account, of customers, and in no case for the bank's own account. In addition, a national banking association may purchase for its own account investment securities within the limitations and restrictions prescribed in said paragraph 'Seventh' and in regulations issued by the Comptroller of the Currency, but it is provided that no such association may underwrite any issue of securities. However, the limitations and restrictions of that paragraph as to dealing in, underwriting, and purchasing for a bank's own account investment securities are not applicable to obligations of the United States or other obligations of certain classes referred to therein.

"Said paragraph 'Seventh' provides that the term 'investment securities' as used therein shall mean marketable obligations 'in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the Comptroller of the Currency.' There is inclosed herewith a copy of the regulations issued by the Comptroller of the Currency under date of June 30, 1927, which are the latest regulations on this subject and which are in effect at the present time.

"As you know, under the provisions of section 9 of the Federal Reserve Act, State member banks are subject to the same limitations and conditions with respect to the purchasing, selling, underwriting and holding of investment securities and stock as are applicable in the case of national banks under paragraph 'Seventh' of section 5136 of the Revised Statutes; and, accordingly, a State member bank is subject to the limitations and conditions above described in purchasing and selling investment securities. With reference to your specific question, therefore, you are advised that a State member bank may not purchase, sell, underwrite or hold investment securities, other than obligations of the United States and other obligations of certain classes specifically named in said paragraph 'Seventh', except in accordance with the limitations and conditions above set out. However, a State member bank is not prohibited by the provisions of paragraph 'Seventh' from purchasing any investment securities for its own account subject to such limitations and conditions.

"Under said paragraph 'Seventh', a national bank may not purchase shares of stock of any corporation except as permitted by law and, in view of the provisions of section 9 of the Federal Reserve Act, a State member bank is subject to the same restriction. The Federal Reserve Board has expressed the opinion that there is no prohibition in the Federal statutes against a State member bank buying or selling corporate stocks solely upon the order and for the account of customers."

Approved.

Telegram dated July 5, 1934, approved by three members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal

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Reserve Bank of San Francisco, reading as follows:

"Referring your wire June 30, Board's condition of membership No. 17 contained in letter of March 11, 1932 (X-7356), contemplates that when a State member bank which has accepted such condition deposits funds it holds in trust in its banking department such funds shall be secured by deposit of required securities in its trust department regardless of whether such trust funds are awaiting investment or distribution. You will understand of course that only State member banks which have accepted such condition of membership are subject to its requirements, although Board feels that requirements of that condition represent a desirable practice to be followed by any member bank."

Approved.

Letter to Mr. Orville H. Bullitt, Philadelphia, Pennsylvania,

reading as follows:

"This refers to your letter of June 5, 1934, regarding your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of Central-Penn National Bank and as a partner in the firm of W. H. Newbold's Son & Co., both of Philadelphia, Pennsylvania.

"The Federal Reserve Board has given careful consideration to the statements in your letter concerning your training and experience in the banking business and your interest in the welfare of the bank. Consideration has also been given to your statement concerning the nature of the transactions between the bank and W. H. Newbold's Son & Co., and to your statement that the underwriting and promotion business of the company does not require undue assistance of the banks for financing.

"However, the position taken by the Board in its letter to you 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. It appears that it was the general purpose 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 in a manner which Congress did not consider compatible with the public interest. In view of the policy thus declared by Congress, the Board feels that, except in unusual cases which are not within the class contemplated by the statute, it should not issue permits authorizing relationships which are within the prohibitions of the section.

"Referring to your statement that it seems necessary that

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"the innocent party should prove his innocence rather than be adjudged guilty, your attention is invited to the fact that the question involved is not whether the applicant is innocent or guilty of any actual wrongdoing, but whether he should be exempted from the operation of the general rule prescribed by the statute.

"The Board wishes to make it clear that the denial of your application is not based upon the belief that your interlocking relationship has actually resulted in any of the undesirable practices which Congress sought to prevent by the enactment of Section 32; but the relationship is one of the type which Congress sought to terminate, in order to guard against the possibility that in the future such relationships might have a tendency to affect the credit and investment policies of member banks.

"While the Board is not unsympathetic with your desire to continue to serve as a director of the bank and as a partner of W. H. Newbold's Son & Co., it believes that your letter of June 5, 1934, states no facts which justify the making of an exception to the general rule prescribed by Congress; and, accordingly, the Board denies your application. Please advise the Federal Reserve Agent at the Federal Reserve Bank of Philadelphia of the steps which you take in order to comply with the provisions of Section 32."

Approved.

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

"This refers to the applications of Messrs. C. M. Gohen, Homer Gebhardt, C. A. Boone, and C. W. Watts, under Section 32 of the Banking Act of 1933 for permits to serve as officers and/or directors of The First Huntington National Bank and of The First Huntington National Company, both of Huntington, West Virginia.

"It has been noted that in answer to question No. 2 of F.R.B. Form 99a, the applicants describe the business of The First Huntington National Company as follows:

'Buying and selling Government securities, municipals, and corporate securities on commission, all orders received from customers being placed by us with members of the New York Stock Exchange or other recognized dealers in securities.'

"In a letter addressed to Mr. Fry, dated June 27, 1934, Mr. C. A. Boone states:

'As stated in our previous correspondence, it has never been the policy of the company to take positions in securities or to become a member of a syndicate for the purpose of distributing or selling such securities to our customers. All bonds and stocks handled by the company in the usual course of its business being bought and sold on customers orders only.'

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"The statement of condition of The First Huntington National Company, as of November 29, 1933, lists an item of 'stocks' in the amount of \$199,955.24. In response to an inquiry from Mr. Fry, Mr. Boone states in the above letter that this item represents an investment in stocks made early in 1930 for the purpose of earning a reasonable return upon the amount of capital of the company which was found to be in excess of that needed to carry on the brokerage business in which the company is engaged.

"It has also been noted that the item of 'Customers' debit balances' in the amount of \$3,202.48 appearing in the above mentioned statement of condition is explained by the following note at the bottom of the first page of F.R.B. Form 99c.

'The item "Customers' Debit Balances" \$3202.48 represents various small balances due from customers on account of incomplete transactions. It does not represent a loan or loans to customers on stock or bond collateral in the form of a marginal account. The company does no marginal business whatsoever.'

"On the basis of the above statements, and the other information contained in the applications, the Federal Reserve Board is of the opinion that The First Huntington National Company is not 'engaged primarily in the business of purchasing, selling or negotiating securities' within the meaning of Section 32 of the Banking Act of 1933, and that no permits under the section are required in connection with the relationships in question. Unless there are other facts which you believe should be called to the attention of the Board, it will be appreciated if you will advise the applicants accordingly."

Approved.

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

"This refers to the letter of Mr. Clark dated June 27, 1934, in regard to the application of Mr. H. S. Denniston under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as president and director of the American National Bank & Trust Company of Mobile, and as president and director of the American Securities Corporation of Mobile, both of Mobile, Alabama. Reference is also made in Mr. Clark's letter to the application of the American National Bank & Trust Company of Mobile under Section 32 for permission to perform the functions of a correspondent bank on behalf of the American Securities Corporation of Mobile.

"Inclosed with Mr. Clark's letter was a letter from Mr. Denniston, dated June 26, 1934, stating that, since filing his application, Mr. Denniston had resigned as a director and officer

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"of the American Securities Corporation of Mobile. Mr. Denniston also stated that he did not believe that the nature of business transacted between the bank and the American Securities Corporation would come within the definition of "Correspondent Bank" and "Correspondent Dealer", as the Securities Corporation simply carries a small account with the bank and owes the bank money on a secured basis'. Mr. Denniston stated that the securities corporation is to be liquidated, and that he believed it would be best that all applications be withdrawn.

"It has been noted that Mr. Clark's letter contains no recommendation or expression of opinion regarding this matter. It seems desirable, however, to have a statement of your views upon the question of whether the provisions of Section 32 are now applicable to the relationships covered by these applications. Accordingly, it will be appreciated if you will furnish to the Board a full statement of the facts as they now exist concerning these relationships, and state whether in your opinion the provisions of Section 32 are applicable to these relationships, and whether these applications should be considered as withdrawn."

Approved.

Letter to Mr. A. Frank Barnes, Salt Lake City, Utah, reading as follows:

"Reference is made to your letter dated May 16, 1934, addressed to the Federal Reserve Bank of San Francisco 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 the Barnes Banking Company, Kaysville, Utah, and as an officer and director of Edward L. Burton & Co., Salt Lake City, Utah.

"The Federal Reserve Board has given attention to the resolution of the Barnes Banking Company requesting that you be allowed to continue to serve as a director of the bank. The Board has also considered your statement that the Barnes Banking Company is a small rural bank and that its customers seldom ask the bank officials for advice 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 that 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 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

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"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 no facts have 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 your letter of May 16, 1934, contains no facts which would justify an exception in your case, and the Board therefore denies your application. It will be appreciated if you will advise the Federal Reserve Agent at the Federal Reserve Bank of San Francisco of the action which you take in order to comply with the provisions of Section 32."

Approved.

Letter dated July 5, 1934, approved by three members of the Board, to an applicant for a permit under the Clayton Act, advising of approval of his application as follows:

Mr. L. Mauritson, for permission to serve at the same time as a director of The Grafton National Bank, Grafton, North Dakota, and as an officer of the First National Bank in Moorhead, Moorhead, Minnesota.

Approved.

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

Mr. Norman James, for permission to serve at the same time as a director of the Safe Deposit and Trust Company of Baltimore, Baltimore, Maryland, and as a director of the Baltimore branch, Federal Reserve Bank of Richmond, Baltimore, Maryland.

Mr. James R. Gilliam, Jr., for permission to serve at the same time as a director of The Lynchburg National Bank and Trust Company, Lynchburg, Virginia, as a director of The First National Bank of Danville, Danville, Virginia, and as a director and officer of The Lynchburg Trust and Savings Bank, Lynchburg, Virginia.

Mr. R. O. Horton, for permission to serve at the same time as a

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director of The First National Bank of Lynchburg, Lynchburg, Virginia, and as a director of The Lynchburg Trust and Savings Bank, Lynchburg, Virginia.

Mr. S. V. Kemp, for permission to serve at the same time as a director of The Lynchburg National Bank and Trust Company, Lynchburg, Virginia, and as a director of The Lynchburg Trust and Savings Bank, Lynchburg, Virginia.

Mr. L. E. Lichford, for permission to serve at the same time as a director of The Lynchburg National Bank and Trust Company, Lynchburg, Virginia, and as a director and officer of the Commercial Trust & Savings Bank, Lynchburg, Virginia.

Mr. Henry E. McWane, for permission to serve at the same time as a director of The Lynchburg National Bank and Trust Company, Lynchburg, Virginia, and as a director of the Commercial Trust & Savings Bank, Lynchburg, Virginia.

Mr. W. H. Miller, for permission to serve at the same time as a director of The Lynchburg National Bank and Trust Company, Lynchburg, Virginia, and as a director of The Lynchburg Trust and Savings Bank, Lynchburg, Virginia.

Mr. C. R. Pettyjohn, for permission to serve at the same time as a director of The Peoples National Bank of Lynchburg, Lynchburg, Virginia, and as a director of the Commercial Trust & Savings Bank, Lynchburg, Virginia.

Mr. Walker Pettyjohn, for permission to serve at the same time as a director and officer of The Peoples National Bank of Lynchburg, Lynchburg, Virginia, and as a director of The Lynchburg Trust and Savings Bank, Lynchburg, Virginia.

Mr. James O. Watts, for permission to serve at the same time as a director of The First National Bank of Lynchburg, Lynchburg, Virginia, and as a director of The Lynchburg Trust and Savings Bank, Lynchburg, Virginia.

Mr. N. M. Worley, for permission to serve at the same time as a director of The Lynchburg National Bank and Trust Company, Lynchburg, Virginia, and as a director and officer of the Commercial Trust & Savings Bank, Lynchburg, Virginia.

Approved.

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

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	<u>Shares</u>	
<u>Applications for ADDITIONAL Stock:</u>		
<u>District No. 4.</u>		
Central United National Bank of Cleveland, Cleveland, Ohio	4,200	
The Carnegie National Bank, Carnegie, Pennsylvania	30	
The First National Bank of Irwin, Irwin, Pennsylvania	<u>60</u>	4,290
<u>District No. 5.</u>		
The Second National Bank of Hagerstown, Hagerstown, Maryland	8	8
<u>District No. 6.</u>		
Louisiana National Bank of Baton Rouge, Baton Rouge, Louisiana	180	
The First National Bank of McComb City, McComb, Mississippi	<u>75</u>	255
<u>District No. 9.</u>		
The First National Bank of Barnum, Barnum, Minnesota	9	
The First Dakota National Bank and Trust Company of Yankton, Yankton, South Dakota	<u>60</u>	69
<u>District No. 10.</u>		
The First National Bank of Butte, Butte, Nebraska	<u>13</u>	<u>13</u>
	Total	4,635
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 2.</u>		
The National Union Bank of Kinderhook, Kinderhook, New York	30	
The First National Bank of Hempstead, Hempstead, New York	<u>600</u>	630
<u>District No. 3.</u>		
The United States National Bank of Johnstown, Johnstown, Pennsylvania	960	960
<u>District No. 10.</u>		
The First National Bank of La Junta, La Junta, Colorado	60	60
<u>District No. 12.</u>		
The First National Bank of Gig Harbor, Gig Harbor, Washington	<u>17</u>	<u>17</u>
	Total	1,667

Approved.

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Thereupon the meeting adjourned.

Lester Morill
Secretary.

Approved:

J. H. Thomas
Chairman, Executive Committee.