

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, August 15, 1934, at 4:15 p. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. James
Mr. Thomas

Mr. Martin, Assistant to the Governor

Governor Black submitted a letter dated August 15, 1934, addressed by him to Governor Harrison, as Chairman of the Federal Open Market Committee, in regard to the minutes of the meeting of the Federal Open Market Committee held in Washington on June 26, 1934.

The letter was approved as follows:

"On July 3 Dr. Burgess wrote me sending me a tentative draft of the minutes of the meeting of the Federal Open Market Committee held at Washington on June 26. These minutes included a motion authorizing the executive committee to sell up to \$500,000,000 worth of securities to the Treasury. Upon receiving this letter from Dr. Burgess I advised him that the motion was not in line with my understanding from you of what it was proposed that the system do. It had been my understanding in the talk with you that the proposition would include selling the shorter maturities of the system. To clear this up I therefore awaited your return from Europe before handling this matter with the Board as there seemed to be no reason for any speedy action in the matter. Upon your return I had the pleasure of discussing it with you and you pointed out that if the longer maturities were sold the earning power of the system would be maintained by exchanging shorter maturities for longer maturities. I have reviewed the minutes of the committee meeting again this morning. Since the Treasury has taken no steps to discuss the purchase of any securities it appears to be unnecessary to have Board action on this at this time. Further consideration will probably be desired to be given to the matter by the conference and such action as is taken then submitted to the Board for its consideration. Please advise if this is satisfactory."

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There was presented a letter dated August 9, 1934, from Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, making certain recommendations having for their purpose principally the strengthening of the examining department of the Federal Reserve Bank of New York.

In accordance with the recommendations contained in Mr. Case's letter, the following actions were taken:

The appointment of Mr. Ray M. Gidney as assistant Federal reserve agent was approved, effective as of September 1, 1934, and his salary in that position was fixed at the rate of \$20,000 per annum.

The appointment of Mr. W. F. Sheehan as chief examiner and head of the force of examiners in the field, with salary at the rate of \$12,000 per annum, was approved, effective as of the date upon which Mr. Sheehan enters upon the performance of his duties.

The appointment of Mr. Gustav Osterhus as trust examiner, with salary at the rate of \$6,000 per annum, was approved, effective September 1, 1934.

The promotion of the following assistant examiners to the position of examiner, with salary at the annual rates stated below, was approved, effective August 16, 1934:

<u>Name</u>	<u>Salary</u>
James B. Cronin	\$2,700.00
Henry J. Hannen, Jr.	2,700.00
John J. Quinn	2,700.00
Charles D. Johnston	3,000.00
Frank E. Montmeat	3,000.00
Ferris I. Palmer	3,000.00
Hugh P. Reed	3,000.00

Reference was made to the portion of the memorandum dated June 23, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, relating to the desirability of having a System committee for the purpose of making a study of banking laws and preparing a legislative program for consideration by the Board next fall, and to the Recovery

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Program Committee appointed by Governor Black as set forth in the minutes of the meeting of the Board with the Governors and Federal Reserve Agents on June 25, 1934.

It was decided that Governor Black in his capacity of Governor of the Federal Reserve Bank of Atlanta, should be added to the Committee, and that it should now be composed of the following members: Messrs. Harrison, Young, Norris, Schaller, Fancher, Thomas and Black.

Governor Black then stated that he had conferred with the President this afternoon and that the President had agreed to accept his resignation as a member and Governor of the Federal Reserve Board, effective today.

Secretary's note: The President's letter accepting the resignation of Governor Black, which was received by Governor Black subsequent to the meeting, reads as follows:

"I have accepted, with great reluctance, your resignation as Governor of the Federal Reserve Board, effective today as requested by you.

"And now that you are leaving Washington and returning to Atlanta where you will reassume the post of Governor of the Federal Reserve Bank there, I am glad you are undertaking a new and important additional task.

"You can do much good by presenting the recovery program to the country's reserve banks, commercial banks and other financial institutions; by acquainting them with the successive steps taken by the Administration which have resulted in the present prosperous condition of these institutions and which make possible their co-operation with the Administration in its program of complete business rehabilitation.

"I am pleased to think that your position as Governor of the Federal Reserve Bank at Atlanta will give you opportunity to undertake this work, and that that bank, together with the Federal Reserve Board, will cooperate with you in its performance.

"In order that I may keep fully informed as your work progresses, I wish you would send me reports from time to time.

"I want also to express to you my deep personal appreciation for the fine service you have rendered at all times since you assumed the Governorship of the Federal Reserve Board. The splendid record you have made entitles you to the gratitude, not only of those directly interested in Government and banking, but to the

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"millions of bank depositors throughout the country who owe much to you because of the wise judgment you exercised in the critical times of not long ago.

"The thanks of the entire country should, therefore, be conveyed to you along with this expression of my own personal appreciation. I am thankful, also, for the reason that although you are leaving us here in Washington, you still will be as active, or even more active, if such is possible, in the discharge of the Atlanta Bank's responsibilities and in taking on new duties which will help the whole country."

Governor Black advised the members present with regard to the services referred to in the above letter which he is to undertake on behalf of the Administration with the cooperation of the Federal Reserve Board.

An arrangement was authorized under which the expenses of travel and subsistence incurred by Governor Black in this new work will be paid by the Federal Reserve Board upon the submission by him of vouchers; such expenses to be pro-rated by the Federal Reserve Board among the twelve Federal reserve banks on the basis of the banks' capital and surplus as of the close of the semi-annual period prior to that in which such expenses are incurred.

Mr. Morrill joined the meeting at this point and the Committee then considered and acted upon the following matters:

Telegrams dated August 15, 1934, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, both advising that, at meetings of the boards of directors today, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated August 9, 1934, from Mr. Paulger, Chief of the Division of Examinations, submitting a voucher from the Federal Reserve Bank of Dallas covering reimbursement for the services during the month of July of Mr. I. F. Betts, an examiner from the Federal Reserve Bank of Dallas,

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whose temporary assignment to the Board's Division of Examinations by the Dallas bank, was approved by the Board on May 24, 1934, and stating that the voucher lists Mr. Betts' salary at the rate of \$4,000 per annum, which is \$400 in excess of the amount he was being paid at the time of the Board's understanding with the Federal Reserve Agent at Dallas, regarding Mr. Betts' assignment to Washington. The memorandum stated also that, in the circumstances, it is recommended that the Board pay the voucher as submitted and continue to reimburse the Federal Reserve Bank of Dallas for Mr. Betts' services on the basis of his new salary which became effective on July 1, 1934.

Approved.

Telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Referring to Mr. Stewart's letter to Mr. Paulger under date of August 11th relating to temporary assignment of Examiner Leger Grindon and Assistant Examiner Paul E. Schroeder to work with Boards Examining Division in Washington, Board appreciates your cooperation in matter and will be glad to have you send Messrs. Grindon and Schroeder to Washington at the earliest available date, with the understanding that the Board will reimburse the bank for their traveling expenses, salaries and six dollars per diem while in Washington."

Approved.

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

"Receipt is acknowledged of your letter of August 9, 1934, advising that you plan to take your vacation beginning the 17th of August, unless such an arrangement would interfere with some of the Board's plans.

"Your letter has been brought to the attention of members of the Board and they have no objection to your leaving on vacation on the date stated, it being assumed that you can be reached

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"through the bank during your absence."

Approved.

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

"The Federal Reserve Board notes with approval from your letter of August 7, 1934, the temporary appointment at your bank, at the suggestion of Mr. Parry of the Board's Division of Research and Statistics, of Mr. A. C. Hodge, with salary at the rate of \$400 per month; the purpose of Mr. Hodge's employment being the collection of information in connection with the regulations to be issued by the Federal Reserve Board pursuant to the Securities Exchange Act of 1934."

Approved.

Memorandum dated August 8, 1934, from the Committee on Salaries and Expenditures, submitting a letter dated August 3 from Mr. Helm, Deputy Governor and Cashier of the Federal Reserve Bank of Kansas City, which requested approval of changes in the personnel classification plan of the bank to provide for three new positions in the fiscal agent-Reconstruction Finance Corporation department. The memorandum stated that the committee had reviewed the proposed changes and recommended that they be approved.

Approved.

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

"Reference is made to your letter of July 20, 1934, advising that the State Bank Commissioner of Utah has approved the application of the Utah Savings & Trust Company, Salt Lake City, Utah, for permission to retire \$100,000 of capital debentures sold to the Reconstruction Finance Corporation, such approval being subject to the approval of the Federal Reserve

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"Board.

"The conditions under which the subject bank was admitted to membership do not require the Board's approval of the proposed retirement of capital debentures. However, in view of the condition of the bank as shown in the report of examination as of May 7, 1934, the favorable capital structure after the retirement of the capital debentures, and your recommendation, the Board will interpose no objection to the transaction."

Approved.

Letter to "The Citizens National Bank in Independence", Independence, Kansas, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kansas, only in the specific trusts in which the First National Bank in Independence had been appointed and was acting at the time The Citizens National Bank in Independence was authorized by the Comptroller of the Currency to commence business, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board."

Approved.

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

"Receipt is acknowledged of Mr. Awalt's supplemental memorandum of July 26, 1934, with reference to the proposed reduction in common capital stock of 'The First National Bank of Nutley', Nutley, New Jersey, which was approved by the Board on December 14, 1933, pursuant to a plan which provided among other things for the sale of \$50,000 of Class 'A' preferred stock to the Reconstruction Finance Corporation, and the sale of \$50,000 of Class 'B' preferred stock locally.

"In accordance with Mr. Awalt's recommendation, the Board amends its previous approval to provide for the sale of

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"\$75,000 of Class 'A' preferred stock to the Reconstruction Finance Corporation and \$25,000 of Class 'B' preferred stock locally, with the understanding that the other provisions of the plan as originally submitted remain unchanged except as to the eliminations to be made, in which connection it is understood that the amount to be charged out of the bank's assets (\$100,000) will be allocated against estimated losses and securities depreciation as shown by the latest report of examination instead of the amounts of losses and depreciation respectively which were originally contemplated on the basis of an earlier report of examination."

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 'Crandon National Bank', Crandon, Wisconsin, from \$25,000 to \$15,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$25,000 Class 'A' preferred stock to the Reconstruction Finance Corporation and \$10,000 Class 'B' preferred stock to local interests, and that the released capital, together with a portion of the bank's undivided profits account, shall be used to eliminate substandard assets and securities depreciation aggregating approximately \$12,249, all as set forth in Mr. Awalt's memorandum of July 27, 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 Farmers National Bank of Sparta', Sparta, Wisconsin, 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, together with a voluntary contribution of \$25,000 to be raised locally, shall be used to eliminate unsatisfactory assets in the amount of approximately \$45,600 and to increase the bank's surplus to \$10,000, all as set forth in Mr. Awalt's memorandum of July 27, 1934."

Approved.

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

"This refers to Mr. Young's letter dated July 28, 1934, requesting advice from the Board upon the question whether Sears, Roebuck and Company is a holding company affiliate, as defined in Section 2(c) of the Banking Act of 1933, of the Sears-Community State Bank, a member bank. The question arises under Section 5144 of the Revised Statutes, as amended, and Section 9 of the Federal Reserve Act, as amended, which provide that a holding company affiliate of a member bank shall obtain a voting permit to vote the stock of its subsidiary member bank.

"It is understood that 5,672 of the 8,000 shares of the stock of the bank are held by J. M. Barker, trustee, under a trust agreement dated April 4, 1933, which provides that in consideration of an advance to the bank of \$165,588.48 by Sears, Roebuck and Company and others, the holders of the 5,672 shares agree that all dividends upon their stock shall be paid to the company and the other lenders until the advance is repaid. The trust agreement also contains an assignment of the 5,672 shares to J. M. Barker, trustee, and provides that the trustee shall vote such shares 'in accordance with the directions and instructions of' Sears, Roebuck and Company. Said trust agreement also provides that in the event of the inability or failure of J. M. Barker to act as trustee, E. H. Powell, or such other person as may be designated in writing by the company, shall be the successor trustee under the agreement. It is also understood that J. M. Barker is a vice-president of Sears, Roebuck and Company.

"It has been noted that on March 23, 1934, Sears, Roebuck and Company wrote a letter to Mr. Barker, informing him that the shares held by him under the trust agreement might be voted by him to the same effect as if said shares were recorded in his name individually, and without any directions or instructions from the company, and that by a letter to Mr. Young, dated July 3, 1934, Mr. Barker accepted such directions. In the opinion of the Board the above-mentioned letters, although they may possibly constitute a termination of 'direct control' do not constitute a termination of 'indirect control' of the 5,672 shares. Accordingly, under the circumstances outlined above, the Board is of the opinion that Sears, Roebuck and Company is a holding company affiliate of the Sears-Community State Bank and that under the provisions of Section 9 of the Federal Reserve Act, and Sections III and IV of the Board's Regulation P, the company is required to obtain a voting permit to vote the shares held by the trustee.

"It has been noted that Mr. Young stated in his letter of July 28, 1934, that Sears, Roebuck and Company has indicated that it would prefer to alter the present arrangement, if

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"necessary, rather than file an application for a voting permit. In connection with such an alteration of the present arrangement, Mr. Young requested advice as to whether Mr. Barker's position as a vice-president of the company would render him ineligible to serve as a trustee of the stock, and also as to whether the provision giving the company the right to appoint a successor trustee should be eliminated from the trust agreement. The Board is of the opinion that Mr. Barker's official position with the company is an indication that the company controls the stock held by him as trustee. The provision for appointment by the company of a successor trustee is also an indication of such control.

"But even if a trustee who is not an officer of the company were appointed, and even if the provision for appointment by the company of a successor were eliminated, the Board believes that there would be a strong probability that 'indirect control' by the company of the 5,672 shares would still exist, in view of the very broad definition of holding company affiliates contained in Section 2 (c) of the Banking Act of 1933.

"It is suggested that the most efficacious way for Sears, Roebuck and Company to end its relationship as holding company affiliate of the bank is by a termination of the trust agreement, and the creation of a pledge agreement under which the dividends upon the stock will inure to Sears, Roebuck and Company, but the voting rights will remain in the original stockholders, who will be the pledgors."

Approved.

Memorandum dated May 15, 1934, from Mr. Vest, Assistant Counsel, recommending the publication in the next issue of the Federal Reserve Bulletin of a statement, in the form attached to the memorandum, with regard to the Board's revised ruling of May 14, 1934, as to the purchase and sale by a State member bank of corporate stocks solely upon the order and for the account of customers.

Approved.

Memorandum dated August 14, 1934, from Mr. Smead, Chief of the Division of Bank Operations, stating that, acting as fiscal agent of the United States Treasury, the Federal Reserve Bank of New York had

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entered into an agreement to sell \$1,000,000 of gold to the Guaranty Trust Company and \$280,000 of gold to the Bankers Trust Company for export purposes; that the above named banks paid the Federal Reserve Bank of New York for the gold on August 14; and that the Federal reserve bank would purchase the gold from the Treasury on that date, but that the gold would not be turned over to the Guaranty Trust Company and the Bankers Trust Company until August 15. The memorandum recommended, for the reasons set forth therein, that the Federal Reserve Bank of New York be instructed to report such gold in the miscellaneous assets block on form 34 and the liability to the banks in connection therewith in the miscellaneous liabilities block; also that, if the Federal Reserve Bank of New York holds any such gold on a weekly statement date, it be included in the weekly statement in the item "All other assets". The memorandum also recommended that any gold acquired by the Federal reserve bank under similar circumstances in the future be reported in the same manner.

Approved.

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

"An amendment to existing law has been proposed for the purpose of excluding from the banking quarters of member banks and other banks whose deposits are insured by the Federal Deposit Insurance Corporation any other organization whose activities might embarrass such banks or might render the supervision of the banks more difficult. As submitted, the proposed amendment would prohibit any bank, banking association, or trust company, and any other organization or person engaged in the banking, building and loan, brokerage, securities,

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"insurance, indemnity or trust business, or in the business of receiving deposits, or engaged in issuing or selling notes or other evidences of indebtedness, from occupying any part of the quarters in which any of the business of a member bank or bank whose deposits are insured under section 12B of the Federal Reserve Act is conducted.

"The proposed prohibition would not include organizations which, as tenants, simply occupy space in other parts of the bank building, and applies only to organizations which share space in the banking quarters or occupy adjoining space, access to which is possible through the banking quarters.

"In order that the Board may give proper consideration to the proposed amendment, it will be appreciated if you will make an investigation in your district of the extent to which other organizations maintain offices in the banking quarters of member banks and other banks whose deposits are insured by the Federal Deposit Insurance Corporation, and what the effect on such organizations and the banks might be if the proposed amendment were enacted into law. In making the requested investigation, it is not believed necessary or desirable to circularize State member banks, as it is believed that, from your general information and from information available to your examiners, an approximate idea may be obtained as to the extent the State member banks share their quarters with other organizations. It may also be possible in conversations with the chief national bank examiners and the supervising examiners for the Federal Deposit Insurance Corporation to obtain further information as to the extent of such practice in other banks, and it is not expected that you should circularize the banks whose deposits are insured by the Federal Deposit Insurance Corporation, as such inquiries might be misinterpreted.

"The Board also will appreciate your suggestions and comments, with special reference to the question whether the purpose is desirable and whether the proposed amendment as described above is sufficiently comprehensive, or whether, on the other hand, it is too inclusive and would result in injustice to some banks."

Approved.

Letter to Mr. Johns, Acting Governor of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of July 31 inclosing copies of letters from Mr. H. C. Frazer, Manager of the Havana Agency, and Professor F. D. Graham in regard to certain figures

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"covering currency operations of the Agency requested by Professor Graham. There would seem to be no objection to furnishing the figures requested by Professor Graham on condition that information relating to the cash holdings of the Agency, including unissued Federal Reserve notes, is not made public. It is suggested that Professor Graham be requested in this connection to furnish the Agency with any figures he has compiled, or may compile, on the amount of money in circulation in Cuba. It will also be appreciated if the Board is furnished with a copy of any figures on the currency operations of the Agency given to Professor Graham, and of any figures on money in circulation in Cuba which may be received from Professor Graham."

Approved.

Letter to Mr. Howard H. Hansen, Supervisor of Banking, Olympia, Washington, reading as follows:

"Receipt is acknowledged of your letters of July 18 and 23, 1934, addressed to the Federal Reserve Board and to Governor Black, respectively, with reference to the Board's views relating to the proper method of member banks showing in their reports and published statements capital debentures sold by such banks and with particular reference to the Board's requirement, in connection with the application of the Northwest Bancorporation for a permit to vote stock owned or controlled by it of the Spokane and Eastern Trust Company, Spokane, Washington, relating to the method by which capital debentures sold by that trust company should be reflected in its reports and published statements. It is believed that a review of the facts and circumstances involved in the Board's action on such application of the Northwest Bancorporation and of certain matters which were considered in connection with that application will clarify to you the Board's views regarding the questions referred to above and will form an appropriate basis for discussion of such questions in this letter.

"During discussions of a proposed general rehabilitation program of banks in the Northwest Bancorporation group during the latter part of November and the early part of December, 1933, by representatives of the Federal Reserve Board with Mr. Thomson, President of the Northwest Bancorporation, and several other officers of that corporation, consideration was given to a proposed plan, which it was understood had been approved by you, under which the Spokane and Eastern Trust Company was to eliminate \$720,000 of substandard assets, sell \$750,000 of capital debentures

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"to the Reconstruction Finance Corporation, and set up its capital accounts in substance as follows:

Capital	*	\$1,000,000
Surplus		250,000
Undivided Profits		<u>159,000</u>
Total		\$1,409,000.

It appeared that under such plan there would be no reduction in the aggregate par value of the \$1,000,000 of capital stock of the trust company issued and outstanding to provide in part for the elimination of losses and substandard assets, and that the published statements of the trust company were to contain a note at the bottom of the balance sheet as follows:

* Includes proceeds of \$750,000 debentures sold to R.F.C., which debentures are subordinate to the rights of depositors and other creditors.

"It was understood that Mr. Thomson and several of his associates did not feel that it would be proper to leave the par value of the trust company's capital stock at \$1,000,000, since it was impaired, and show it in reports and published statements in the manner and under the circumstances described above, but preferred to reduce the stock and show the capital accounts of the trust company in its reports and published statements as they actually existed, omitting the footnote except possibly that part stating that capital debentures are 'subordinate to the rights of depositors and other creditors'. Mr. Thomson was advised informally that the Board would probably not authorize the issuance of a voting permit in connection with a proposed plan under which the capital accounts of the Spokane and Eastern Trust Company would be set up in substance as described above.

"After careful consideration of the application for a voting permit of the Northwest Bancorporation, the Board, on December 27, 1933, authorized the issuance of a limited permit to that corporation to vote stock owned by it of the Spokane and Eastern Trust Company for certain purposes in accordance with a plan whereby the bank was to eliminate approximately \$720,000 of substandard assets, reduce its common stock from a total par value of \$1,000,000 to \$500,000 par value and sell \$750,000 par value of capital debentures to the Reconstruction Finance Corporation. Under such plan the trust company would have had remaining capital account substantially as follows:

Capital stock	\$500,000
Capital debentures	750,000
Surplus and undivided profits	<u>159,000</u>
Total	\$1,409,000.

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"During the first part of April, 1934, representatives of the Northwest Bancorporation requested informally a modification of that part of the agreement, executed by the Northwest Bancorporation in connection with the issuance of the limited voting permit, under which the Northwest Bancorporation agreed, among other things, to cause the Spokane and Eastern Trust Company to reduce its capital from \$1,000,000 to \$500,000. It was understood that you had not formally approved the reduction of capital stock and the representatives of the Northwest Bancorporation were requested to file a written application for the modification desired, setting forth the necessity for such modification of the original agreement. Accordingly, such an application was addressed to the Board on April 16, 1934, in connection with which it was again proposed that capital debentures sold by the trust company be carried in the trust company's reports and published statements as 'capital' with a note at the bottom of such statements of the kind described on page 2 of this letter.

"Shortly thereafter, the Board received a new report of examination of the Spokane and Eastern Trust Company as of March 12, 1934, which indicated that the condition of the bank's assets had improved to such an extent that there was then no impairment of capital and that the reduction in capital stock was no longer necessary in order to eliminate such impairment.

"Since the previous consideration of this matter indicated a difference of views as to the manner in which the plan of rehabilitation of the Spokane and Eastern Trust Company might properly be accomplished and in order that the Board would be certain that it had full information concerning this case, it was discussed in detail with the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis through whom the application of the Northwest Bancorporation was filed. The Federal Reserve Agent was requested to have a representative of his office discuss the matter with you and officers of the Spokane and Eastern Trust Company and at the same time ascertain the current condition of the trust company's surplus and undivided profits accounts. A copy of the report made by the Federal Reserve Agent's representative on this matter was furnished to the Board for its information, and it appeared therefrom that the condition of the trust company as of May 31, 1934, was improved to such an extent that there was no impairment of capital. In connection with the pending application for modification of the original agreement as executed by the Northwest Bancorporation, it was understood that a modification was desired which would permit the trust company to sell \$750,000 of capital debentures, retain all of its \$1,000,000 par value of capital stock and show in its reports and published statements the capital accounts in substantially the following manner:

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"Capital	\$1,000,000
Surplus	*750,000
Undivided profits and reserves	318,000

with the following footnote at the bottom of the balance sheet:

- * Proceeds of \$750,000 debentures sold to R.F.C., which debentures are subordinate to the rights of depositors and other creditors.

"After careful consideration of all the facts and circumstances involved and in view of the application of the Northwest Bancorporation for modification of its agreement executed in connection with its application for a voting permit, the Board on July 10, 1934, authorized the issuance of a limited voting permit to the Northwest Bancorporation subject to certain conditions which did not require a reduction of the capital stock of the Spokane and Eastern Trust Company, since it appeared that a reduction was not necessary to provide for elimination of losses, but which did prescribe the manner in which the capital accounts of such trust company should be shown in its reports and published statements as follows:

"that so long as the capital debentures issued by the Spokane and Eastern Trust Company, Spokane, Washington, pursuant to the plan for the recapitalization of such trust company, are outstanding, Northwest Bancorporation will do such things as may be necessary to cause such debentures to be shown in the published statements of condition of such trust company in substantially the following manner: (a) the par value of such debentures shall be included in the amount shown opposite the item QUOTE capital UNQUOTE, and under such item there shall be inserted an explanation reading as follows: QUOTE Includes BLANK dollars par value common stock and BLANK dollars par value capital debentures sold to Reconstruction Finance Corporation UNQUOTE; provided, however, that there may be added to such explanation, if the law of the State of Washington so requires, or the trust company so desires, the following: QUOTE which debentures are subordinate to the rights of depositors and other creditors UNQUOTE; (b) the amounts of capital stock and debentures shown in each such explanation shall represent and be equal to the aggregate par value of such stock and debentures outstanding as of the date of the statement."

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"In order to comply with such requirement the Spokane and Eastern Trust Company should show its capital accounts in the 'Liabilities' section of its reports and published statements in substantially the following manner (assuming certain figures for convenience):

"Illustration #1

LIABILITIES

Capital	\$1,750,000
Includes \$1,000,000 par value capital stock and \$750,000 par value capital debentures sold to R.F.C., which debentures are subordinate to the rights of depositors and other creditors.	
Surplus	250,000
Undivided profits and reserves	68,000
Acceptances, etc.	100,000
Deposits	<u>17,000,000</u>
Total	\$19,168,000.

"To illustrate the applicability of this method in cases of impairment of capital stock, assume that the trust company has additional losses of \$400,000 which must be eliminated in order that its statement may correctly reflect its condition. The set up then would be substantially as follows:

"Illustration #2

LIABILITIES

Capital	\$1,668,000
Includes \$1,000,000 par value capital stock and \$750,000 par value capital debentures sold to R.F.C., which debentures are subordinate to the rights of depositors and other creditors.	
Acceptances	100,000
Deposits	<u>17,000,000</u>
Total	\$18,768,000.

"From your letters of July 18 and July 23, 1934, it is the Board's understanding that under the method you described the set

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"up in this latter case would be substantially as follows:

"Illustration #3

LIABILITIES

*Capital	\$1,000,000
Surplus	500,000
Undivided profits and reserves	168,000
Acceptances	100,000
Deposits	<u>17,000,000</u>
Total	\$18,768,000.

* Includes proceeds of \$750,000 debentures sold to Reconstruction Finance Corporation which debentures are subordinate to rights of depositors and other creditors.

"It appears that a bank's statement of condition prepared in the manner and under the circumstances shown in Illustration #3 above would not reflect the true condition of the bank, and such a statement would not conform to the requirements prescribed by the Board with regard to the Spokane and Eastern Trust Company. A statement of the kind shown in Illustration #3 involves an incorrect statement of the bank's condition in the body of the statement and the attempt to explain the incorrectness of the statement in the footnote thereto does not eliminate its misleading character.

"It has been observed that you are under the impression that the Board's action in the case of the application of the Northwest Bancorporation for a voting permit represents its views as applicable only to the Spokane and Eastern Trust Company rather than to all member banks. This, however, is not the case and the Board feels that the principles involved in the case of the Spokane and Eastern Trust Company and discussed above are equally applicable to other member banks under similar circumstances. In this connection, your attention is called to the following statement which was contained in a telegram which the Board addressed to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco on February 13, 1934, with regard to the Yakima Valley Bank and Trust Company at Yakima, Washington:

'Refer Sargent's letter February 9, 1934 re reorganization Yakima Valley Bank and Trust Company, Yakima, Washington. Board's approval of proposed reorganization of such member bank is not required by law or any conditions under which bank was admitted to membership, but whether bank may be reopened as a member bank depends upon issuance of license

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"by Secretary of Treasury upon recommendation of the Federal Reserve Bank. It appears that under proposed plan of reorganization bank's net worth will not equal total amount of capital debentures and capital stock outstanding, and Board feels that if reopening is accomplished under proposed plan bank's reports and published statements should correctly and fully reflect condition of bank's capital liabilities. It does not appear that this would be accomplished by the method proposed in paragraph numbered (2) in pro forma statement forwarded with Sargent's letter."

"The method referred to in the last sentence of the above quotation was substantially the same as that described on page 2 of this letter, and you will observe that, while in this case the Board was not authorized to prescribe a requirement, the Board advised of its views in the matter. In connection with the Board's position in cases involving circumstances of the kind under discussion, your attention is also called to the following instructions issued by the Board to all of its Federal Reserve Agents on April 14, 1934, for their guidance in similar cases arising in their respective districts:

"Reference is made to Mr. _____ letter of March 6, 1934, with regard to the proposed elimination of losses in the _____ Banking and Trust Company of _____, _____. It appears that the trust company proposes to sell its debentures in the amount of \$250,000 to the Reconstruction Finance Corporation and to use the proceeds of the sale of such debentures to charge off approximately \$250,000 of assets criticized by the examiner at the time of its last examination. Mr. _____ inquired whether the trust company may properly effect the eliminations in this manner and in its reports and published statements show its obligation on the outstanding debentures only in a footnote to such reports and statements containing a statement to the effect that it has sold debentures to the Reconstruction Finance Corporation in the amount of \$250,000.

"A bank's reports and published statements should reflect the true condition of its assets and liabilities including all of its capital accounts. Inasmuch as capital debentures represent a definite obligation of the bank to the holders of such debentures, the amount of the bank's liability on account of any such debentures outstanding should be shown as such in the bank's reports and published statements rather than in a footnote thereto, and, in order to avoid any deficiency in the capital accounts of the bank, its assets, of course, must be equal to the amount of its obligations to depositors and other creditors and the amount of all of its capital accounts including capital debentures.

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"Therefore, as indicated in Mr. _____ letter, it is apparent that if the reports and published statements of the _____ Banking and Trust Company are to reflect correctly the condition of the assets and liabilities of the bank and not reflect a deficiency in the bank's capital accounts after the proposed eliminations it will be necessary, in the circumstances described in this case, for the bank by appropriate action to reduce its surplus or outstanding capital stock in an amount sufficient to provide for such eliminations.

"In this connection your attention is called to the fact that the Board's instructions for preparing the last call report of State member banks contain the following provisions relating to the method of reporting capital accounts.

"A State bank member should not show any surplus or undivided profits in condition reports on Form 105 so long as the net book value of capital notes and debentures and capital stock is less than the aggregate of (1) the amount at which capital notes and debentures or preferred stock must be retired or to which the holders thereof are entitled in case of liquidation and (2) the par value of common stock."

"For your further information in this connection, reference is made to the method of reporting the capital accounts as shown in line 30 of the Board's condition report, Form 105, a copy of which is inclosed herewith.

"It has been observed from your letter of July 23, 1934, that you have set up the capital note program in the State of Washington 'on the basis of permitting the proceeds of capital notes to be introduced into the capital structure in sufficient amount to leave the capital unimpaired, and the balance of the proceeds of the capital notes automatically reverts to other capital accounts such as surplus, undivided profits or reserves'. You also stated that this 'does not call for increased carrying figure of the capital stock. The capital stock of the bank remains the same but the proceeds of the capital notes permit repairment of any impairment of the capital there may be, and where there are any remaining proceeds they are a means of bringing up the capital accounts which can be used as a cushion for emergencies.'

"While the sale of capital notes and debentures which are subordinate to the claims of depositors and other creditors of the bank affords additional protection to such depositors and other creditors, the Board does not understand how an impairment in the capital of a bank can be eliminated by the sale of capital notes or debentures. In this connection, it is apparent that any increase in the assets of a bank resulting from the proceeds of the sale of capital notes or debentures is offset by an increase in a corresponding amount of the liabilities of the bank to the holders of such capital notes or

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"debentures. Accordingly, any impairment in the capital stock of the bank which existed at the time of the sale of such capital notes or debentures will not be affected by such sale, whether the liability of the bank on such capital notes or debentures is stated in its reports and published statements or is merely set out in a footnote thereto. However, if, as contemplated in the program you described, the liability of a bank on capital notes or debentures sold is not stated in its reports and published statements, such reports and published statements will be misleading and will not correctly reflect the condition of the bank. In this connection, it should be observed that the surplus and undivided profits accounts shown in the reports of banks are generally understood to represent funds belonging to the stockholders of the bank after provision is made for payment of the claims of depositors and other creditors. Therefore, it would be misleading to represent in the reports and published statements of a bank that liabilities of the bank on account of capital notes or debentures sold are surplus or undivided profits of the institution.

"You will understand, of course, that the Board feels that the liability of a bank on account of capital notes or debentures sold would be most clearly reflected in the bank's reports and published statements if shown therein as a separate account with an appropriate title. However, in view of the Board's understanding of the requirements which your office has made in connection with the showing of the liability of banks in the State of Washington on account of capital notes and debentures sold, and in order to cooperate with your office as far as possible, the Board was willing to give its approval to the set up of the liability of a member bank on account of capital notes or debentures sold in the manner described in the requirement applicable to the Spokane and Eastern Trust Company and as further described in Illustration #1 on page 7 of this letter. In view of the circumstances the Board does not feel that it could properly approve of the publication by a member bank of a statement of the kind contemplated in the program you described.

"Before reaching a conclusion in this matter, the Board gave careful consideration to all of the facts involved, including those relating to the condition of member banks and to the fact that in several States there are definitely defined minimum legal limits beyond which the capital stock of banks cannot be reduced in order to eliminate capital impairment; but the Board feels that even though it may be necessary in some circumstances and for a temporary period for banks to operate with a capital impairment the reports and published statements of member banks should, as nearly as possible, clearly and correctly reflect the condition of such banks."

Approved.

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Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"The Federal Reserve Board has received your letter of August 3, 1934, with inclosures, regarding the request of Mr. J. C. Maurer for a ruling as to the applicability of section 32 of the Banking Act of 1933 to the services of various officers or directors of First Securities Corporation of Syracuse, Syracuse, New York, who are serving simultaneously as officers or directors of certain member banks of the Federal Reserve System.

"It has been shown that, upon the organization of the First Securities Corporation of Syracuse, it issued 89,699 shares of its authorized capital stock and that the purchasers thereof or their successors now own those shares and that, thereafter, it purchased shares of a number of banks in the vicinity of Syracuse, paying for the same partly in cash and partly in its own shares. It has been stated that the remainder of its capital was used for the purchase of other securities as investments which have been changed in a few instances and that the corporation has never sold or offered securities to the public except its own stock and the stock of the First Trust and Deposit Company, all trading in both of which was discontinued on or about January 1, 1932.

"Also, it has been shown that the total purchases and sales of securities by the corporation during the years 1929 to 1933, inclusive, were in percentages of its total assets as follows:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1929	82.0	.2
1930	23.0	18.0
1931	.3	1.7
1932	.6	.2
1933	<u>2.0</u>	<u>4.0</u>
Average for five years	24.9	4.8

"During the same period, the corporation derived total gross profits from sales of securities in the amount of \$15,207.54, while its total income from other sources amounted to \$125,323.20. Furthermore, at the end of the year 1932, 99% of the firm's portfolio had been held continuously for more than two years and, at the end of the year 1933, 98% of the portfolio had been held for the same period.

"On the basis of the information submitted, the Board concurs in your opinion that the First Securities Corporation of Syracuse may not be regarded as being 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the intendment of the provisions of section 32. In the circumstances, a permit covering service to that corporation and to a member bank is not necessary; and, unless there are other facts which you believe should be brought to the attention of the Board, it is suggested that you advise Mr. Maurer

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"accordingly."

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"The Board has received your letter of August 7, 1934, with inclosures, regarding the application of Mr. Charles F. Park for a permit under section 32 of the Banking Act of 1933 to serve as an officer of The Marine Midland Trust Company of New York, and Columbia Investing Corporation, both of New York, New York.

"It has been noted that on June 28, 1934, the stockholders of the Columbia Investing Corporation voted to dissolve the corporation; that the corporation has been dissolved and is in the process of liquidation, and that a liquidating dividend at \$6.00 per share was distributed to the stockholders on July 23, 1934. On the basis of the information submitted, the Board concurs in your opinion that the relationship covered by the application mentioned above should not be regarded as subject to the provisions of section 32 and that a permit under this section is not necessary for the continuance of Mr. Park's service to the member bank and to the Columbia Investing Corporation."

Approved.

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

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. H. T. Mills, Greenville, South Carolina, to serve at the same time as director of The First National Bank of Greenville and director of The Peoples National Bank of Greenville, both of Greenville, South Carolina, which you are requested to transmit to the applicant and the banks involved.

"In considering Mr. Mills' application for a Clayton Act permit it was noted (item 12 - F.R.B. Form 94, dated March 26, 1934) that he was serving as director of the Liberty Life Insurance Company and the Southeastern Life Insurance Company, both of Greenville, South Carolina. In the report of examination of The Peoples National Bank of Greenville, as of May 3, 1934, the examiner stated that these companies include among their assets loans secured by stock and bond collateral, and that while no loans of this nature had been made since January 1, 1934, the applicant and other directors likewise affected desire to know their status with respect to the Clayton Act

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"should new loans be made by such companies on the security of stock or bond collateral.

"The Board requests that when transmitting the Clayton Act permit to the applicant and the copies thereof to the banks concerned you advise in each case that in the event either of the above mentioned insurance companies makes new loans secured by stock or bond collateral, Mr. Mills' service at the same time as director of that company and as director of the national banks would be a violation of Section 8A of the Clayton Act, and it would be necessary for him to sever his connection with either the insurance company or both of the national banks in order to conform to the requirements of that section."

Approved.

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

"Reference is made to your letter of July 20, 1934, relative to the Clayton Act permit issued by the Board to Mr. A. L. Egge, Hibbing, Minnesota, to serve as director of The First National Bank of Buhl, Buhl, and as director and officer of Merchants and Miners State Bank, Hibbing, both of Minnesota.

"As it appears that Mr. Egge's statement is satisfactory to you, the Board is willing to accept it as sufficient evidence that he possesses the necessary shares of stock unhypothecated to qualify as a director of The First National Bank of Buhl."

Approved.

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

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. R. R. Smith, Chickasha, Oklahoma, to serve at the same time as director and officer of The Citizens-Farmers National Bank of Chickasha, Chickasha, Oklahoma, and as director of The First National Bank of Lindsay, Lindsay, Oklahoma, for transmittal by you to Mr. Smith and the two banks, and a copy for your files.

"In considering the application of Mr. Smith, it was noted that he attended only one of the twelve meetings held by the directors of the Lindsay bank during the past year. In granting the permit the Board took into consideration the fact that the applicant and his family are the largest stockholders in the Lindsay bank, that the applicant, in the past, was reported to have checked the undesirable domination of the Lindsay bank by Cashier

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"C. E. Costello, and that there were no unfavorable factors other than his poor attendance at directors' meetings. The Board feels that a director should have a satisfactory record of discharging his duties and responsibilities by participating in the management and operations of a bank which he is serving through attendance at directors' meetings, and it is suggested that you advise Mr. Smith that it is with the expectation that he will improve his attendance at directors' meetings of the Lindsay bank that the permit has been granted. The Board requests that when you submit your recommendations as a result of your annual review of this permit, you report fully as to Mr. Smith's attendance at directors' meetings.

"It has been noted that the directors of the Citizens Loan and Securities Company, Chickasha, Oklahoma, of which the applicant was reported to be president, passed a resolution at their meeting held on December 18, 1933, prohibiting that company from further dealing in securities and investments of any kind. Such action apparently removed the applicability of Section 32 of the Banking Act of 1933, insofar as the applicant is concerned, but inasmuch as the Citizens Loan and Securities Company was organized, among other things, for the purpose of lending money, the question of the applicability of Section 8A of the Clayton Act would appear to arise. In this connection, reference is made to the Board's letters of November 10, 1933 (X-7677) and December 19, 1933 (X-7721), from which it will be noted that if any non-banking organization with which Mr. Smith is connected occasionally makes loans secured by stock or bond collateral, other than to its own subsidiaries, his service at the same time as an officer of such organization and as a director, officer, or employee of a national bank is prohibited by Section 8A, and the Board is without authority to issue a permit in such a case. Accordingly, it is requested that, before releasing the inclosed permit, you ascertain definitely whether Mr. Smith's services with any of the non-banking organizations listed in his application come within the prohibitions of Section 8A. If it is determined that none of the non-banking organizations makes loans on stock or bond collateral within the contemplation of Section 8A, you are authorized to release the inclosed permit to Mr. Smith, at the same time forwarding copies thereof to the banks involved.

"Please inform the Board of your disposition of this matter in order that its records may be complete."

Approved.

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

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"There are inclosed the original and copies of a Clayton Act permit granted to Mr. C. E. Costello to serve at the same time as director and officer of The First National Bank of Lindsay, as director and officer of The First National Bank of Alex, and as director of The First National Bank of Blanchard, all of Oklahoma.

"It has been noted from information furnished by your office and also contained in the recent reports of examination of the three banks that the applicant had been criticized in connection with his loans and those of members of his family in the banks, and that he also had been criticized by the national bank examiner for his apparent participation in an arrangement to have the Blanchard bank assume the loss involved in certain notes, the payment of which had been guaranteed by him and Mr. R. K. Wootten. In approving this application, consideration has been given to the fact that the banks involved are in good condition, that the applicant is reported to be highly regarded in the communities, and that improvement recently in his personal financial affairs has been effected. The Board has noted your opinion that Mr. Costello's service with the three banks will not be harmful to them and that his forced withdrawal from any of them might be distinctly harmful.

"Confidentially, however, it has been noted from the files of the Comptroller of the Currency, in connection with the recent examination of the Blanchard bank, that the charging off of the notes guaranteed by Directors Costello and Wootten may have constituted a violation of Section 5209, U. S. R. S., and that the transaction may be reported to the United States District Attorney. The Board feels that, in all cases where there have been alleged violations of the law, definite information should be obtained from the proper authorities regarding the disposition which was made of such cases before permits under the provisions of the Clayton Act are issued. You are requested, therefore, to ascertain the status of the charges against Mr. C. E. Costello, and in the event the case has been duly considered and closed without prosecution, you are authorized to release the inclosed permit to the applicant and to forward copies thereof to the banks involved, at the same time furnishing the Board complete information with regard to the disposition of the matter in order that its records may be complete.

"When you submit your recommendations as a result of your annual review of this permit, the Board requests that you report fully as to whether there have been any further abuses by Mr. Costello of his official positions."

Approved.

Letters to the Federal Reserve Agent at the Federal Reserve Bank of Dallas, inclosing the following Clayton Act permits for transmission to the

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applicants, and requesting that, when he submits his recommendations as a result of his annual review of the permits, he report fully as to the applicants' attendance at directors' meetings.

Mr. Robert D. Barclay, for permission to serve at the same time as a director and officer of the National Bank of Commerce of San Antonio, San Antonio, Texas, and as a director of the First State Bank, Poteet, Texas.

Mr. John M. Bennett, for permission to serve at the same time as a director of the National Bank of Commerce of San Antonio, San Antonio, Texas, as a director and officer of The Yoakum National Bank, Yoakum, Texas, and as a director of the San Antonio branch of the Federal Reserve Bank of Dallas, San Antonio, Texas.

Approved.

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

Mr. Orlo J. Hamlin, for permission to serve at the same time as a director and officer of the Hamlin Bank and Trust Company, Smethport, Pennsylvania, and as a director of The First National Bank of Eldred, Eldred, Pennsylvania.

Mr. D. S. Zachry, for permission to serve at the same time as a director of The First National Bank of Lenoir City, Lenoir City, Tennessee, and as a director of The Bank of LaFayette, LaFayette, Georgia.

Mr. S. J. Graham, for permission to serve at the same time as a director and officer of the First National Bank in Tuckerman, Tuckerman, Arkansas, and as a director of The First National Bank of Newport, Newport, Arkansas.

Mr. Jack Hill, for permission to serve at the same time as a director and officer of The First National Bank of Minco, Minco, Oklahoma, as a director and officer of The First National Bank of Pocasset, Pocasset, Oklahoma, and as a director of The Oklahoma National Bank of Chickasha, Chickasha, Oklahoma.

Mr. N. C. Hill, for permission to serve at the same time as a director and officer of The First National Bank of Pocasset, Pocasset, Oklahoma, and as a director of The First National Bank of Minco, Minco, Oklahoma.

Approved.

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

<u>Application for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 7.</u>		
The Wilmette State Bank,	105	105
Wilmette, Illinois		

Approved.

Thereupon the meeting adjourned.

C. Lester Moriel
 Secretary.

Approved:

G. H. Black
 Governor.