

A meeting of the Federal Reserve Board was held in Washington on Wednesday, October 10, 1934, at 3:10 p. m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Paulger, Chief of the Division
of Examinations
Mr. Wyatt, General Counsel
Mr. Boatwright, Assistant Counsel

The Board considered and acted upon the following matters:

Letter to "The National Metals Bank of Hancock", Hancock, Michigan, 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 Michigan, 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.

"Inasmuch as the application of The National Metals Bank of Hancock, Hancock, Michigan, was made prior to the date the Comptroller of the Currency authorized it to commence business, the Board will require that your board of directors adopt a resolution ratifying your application for permission to exercise trust powers, and it is requested that a certified copy of the resolution so adopted be forwarded as soon as possible through the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, who will forward it to the Federal Reserve Board. When a copy of such resolution has been received by the Board, a formal certificate covering your authority to exercise trust powers will be sent to you."

Approved.

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

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follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of "The New Market National Bank", New Market, New Hampshire, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$25,000 of preferred stock to the Reconstruction Finance Corporation, that the released capital shall be used to eliminate a corresponding amount of estimated losses, and that all remaining losses and depreciation in lower grade securities shall also be eliminated, all as set forth in your memorandum of September 27, 1934."

Approved.

Memorandum dated October 6, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting an article on member bank reserve requirements written by him at the request of Mr. Harry Eaton, of the Whaley-Eaton Service, to be published in the magazine "Sphere", and stating that Mr. Eaton talked to Vice Governor Thomas, who told him that he personally saw no objection to the publication of the article; that suggestions made by Mr. James had been incorporated in the article; that it was understood that the article was satisfactory to him; and that, therefore, it is recommended that the Board approve the publication of the article.

Approved.

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

"Receipt is acknowledged of your letter of October 6, 1934, with regard to a meeting of the boards of directors of your bank and branches with the Federal Reserve Board in Washington, and in this connection you call attention to the practice of holding an annual meeting of the directors of your head office and branches in Cleveland in June, of the directors of your head office and

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"Pittsburgh branch in Pittsburgh in September, and of the directors of your head office and Cincinnati branch in Cincinnati in October.

"It is not believed that it will be possible to arrange for a meeting with your directors in October, so that the nearest date suggested in your letter would be in June of next year. In the event that your directors feel that it would be desirable to meet with the Board before that time, it is suggested that you give consideration to some earlier date which would meet the convenience of the boards of directors of your bank and branches and advise the Board of their decision.

"If it is felt that June will be a satisfactory time for the meeting, the Board will appreciate advice as to the date of the meeting of your directors in Cleveland and the date they would desire to meet with the Board."

Approved.

Telegram dated October 9, 1934, approved by four members of the Board, to Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Your telegram October 3 re meeting your directors with Board in Washington. It now appears that date suggested can be fitted into general schedule, and, accordingly, Board has fixed October 26, at 10 a.m., as date for meeting. You will be advised later of matters which Board will wish to discuss at meeting, and it will be appreciated if you will request your directors to give consideration to any matters which they would like to have considered and if you will advise Board with regard thereto not later than October 19."

Approved.

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

"Referring to your letter of October 3, it will be agreeable to the Federal Reserve Board for you to defer until after December 31, 1934, submission of the statement and recommendations regarding the reclassification of member banks for electoral purposes called for in the Board's letter of September 19, X-8012."

Approved.

Telegram dated October 9, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading

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as follows:

"Board has been asked whether a loan carried with a bank prior to October 1, 1934 may be transferred after that date to a broker and designated as an 'old account' under section 7(a) of Regulation T. Assuming that bank in question is not a member of a national securities exchange, Board has advised in reply that suggested designation may not be made as section 8(e) of Regulation T with respect to 'Transfer of Accounts' refers only to transfers from one 'creditor' to another 'creditor' and term 'creditor' as defined in section 2(b) of Regulation T does not include a bank which is not a member of a national securities exchange."

Approved.

Telegram dated October 9, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In answer to inquiries as to the nature of an account which may be designated as an 'old account' pursuant to section 7(a) of the Board's Regulation T, Board has advised that the account to be designated as an 'old account' shall include all financial relationships existing between a creditor and a customer at the opening of business on October 1, 1934, except that those relationships which may be recorded separately in other special accounts in conformity with sections 3(b), 3(c), 3(d), 5(b), and 6 need not be included in such old account. The adjusted debit balance of such old account and the maximum loan value of the securities therein must be calculated in accordance with section 3(f) of the regulation as if it were a combined account, except that the old account shall not affect or be affected by the status of any other special account or of any new account established for such customer."

Approved.

Telegram dated October 9, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In response to question whether section 8(a) of Securities Exchange Act of 1934 and section 10(a) of Regulation T require brokers, dealers and members of national securities exchanges to pay off before October 15, any money borrowed prior to October 1,

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"1934, from persons other than member banks, nonmember banks which have filed agreements pursuant to section 11 of regulation, and other brokers, dealers and members of national securities exchanges, Board expressed the view that the restrictions of section 10(a) of the regulation and section 8(a) of the Act apply only to borrowing on registered non-exempted securities on or after October 1, 1934, when this section of the Act became effective, and do not require the paying off of money borrowed before that date or prohibit the renewal or extension of a loan obtained before that date; provided that such renewal or extension involves no increase in the amount of the loan. In view of fact that violation of section 8(a) of the Act is a criminal offense, however, Board's opinion upon this subject would not preclude prosecution if Department of Justice should interpret the law differently; and, in case of any doubt, member, broker, or dealer should obtain advice of his own counsel."

Approved.

Telegram dated October 9, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Several inquiries have been received as to which provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, as amended, and the Banking Act of 1933 are applicable to member banks and relate to the use of credit to finance transactions in securities within the meaning of section 8(a) of the Securities Exchange Act of 1934 and of the Board's Forms T-1 and T-2 prescribed pursuant thereto. Since question requires interpretation of criminal statute rather than interpretation of Board's regulation, expression of opinion by Board would not afford protection from criminal prosecution if the Department of Justice, upon consideration of the matter should take position inconsistent with that taken by Board and should feel compelled to prosecute for violation of the section. Accordingly, Board does not feel that it would be appropriate for it to express an opinion upon the question other than to advise nonmember banks contemplating the execution of Form T-1 or T-2 to familiarize themselves with statutes in question and to consider possibility that it may be held that above-mentioned language of section 8(a) refers to the following provisions, among others: Section 11(m) of Federal Reserve Act as amended by section 7 of Banking Act of 1933, seventh paragraph of section 19 of Federal Reserve Act as amended by section 11 of Banking Act of 1933, fourth paragraph after paragraph "Eighth" of section 4 of Federal Reserve Act as amended by section 3 of Banking Act of 1933, and those provisions of Securities Exchange Act of 1934 which are contained in appendix to Regulation T. In reply to another inquiry, Board advises that foregoing

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"should be brought to attention of nonmember banks contemplating execution of agreements but that circularization of such information to all nonmember banks is believed to be unnecessary."

Approved.

Telegram dated October 9, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In interpreting section 7(a) of Regulation T on October 2, 1934, the Federal Reserve Board said: 'If, between the opening of business on October 1, 1934 and the time of the designation of such account as an old account, there has been any withdrawal of money or securities from the account, such account cannot be designated as an old account unless it is an unrestricted account on October 15 or on the date of such designation, whichever is the later, or unless the cash and/or securities withdrawn from the account are replaced before the account is designated as an old account.' This ruling has given rise to two additional inquiries. (1) Does it prevent the withdrawal of any securities or only of securities which as of October 15 will have the status of registered and/or exempted securities? and (2) What is meant by the replacement of cash or securities withdrawn from the account? In answer to the first question, the Board has ruled that the restriction applies to the withdrawal of unregistered, non-exempted securities as well as to the withdrawal of registered and/or exempted securities. In answer to the second question, the Board has ruled that, where cash has been withdrawn, it must be replaced by an equivalent amount of cash and, where securities have been withdrawn, they must be replaced by money and/or securities to such an extent that the money plus the market value of the securities deposited is not less than the aggregate market value of the securities which were withdrawn and the money plus the maximum loan value of the securities deposited is not less than the aggregate maximum loan value of the securities which were withdrawn from the account. For the purpose of determining the amount of cash and/or securities needed to replace securities withdrawn, the current market value and maximum loan value of the securities withdrawn and of the securities replaced must be ascertained in accordance with section 3 of Regulation T as of the opening of business on October 15 or the date of replacement, whichever is later."

Approved.

Letter dated October 9, 1934, approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of

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New York, reading as follows:

"The Board has given consideration to the application of Mr. George F. Schmidt, Clifton, New Jersey, for permission under the provisions of the Clayton Act to serve at the same time as director and officer of The First National Bank of Clifton and The Clifton Trust Company, both of Clifton, New Jersey, and as director of The Garfield Trust Company, Garfield, New Jersey. Upon the basis of the information before it, the Board feels that the issuance of the permit applied for would be incompatible with the public interest.

"Moreover, it appears that on October 17, 1930, the Board issued to Mr. Schmidt a Clayton Act permit covering his service as officer of The First National Bank of Clifton and officer and director of The Clifton Trust Company. For the same reason that the Board believes the issuance of the permit under the present application would be incompatible with the public interest, it also feels that the permit which previously has been issued should be revoked.

"Accordingly, you are requested to advise Mr. Schmidt of the Board's position in the matter unless there are pertinent facts which were not submitted with the application which you feel should be given consideration. If you deem it desirable or necessary, you are authorized to inform Mr. Schmidt that the Board's action with reference to his present application as well as to the permit which previously has been issued to him was based upon the unsatisfactory condition of the banks with which he has been associated in an official capacity and also as a director, the apparently excessive sacrifice made by depositors to recapitalize The Clifton Trust Company and his poor record of attendance at directors' meetings of The Garfield Trust Company.

"When you communicate with the applicant please advise him that, in accordance with Section V (g) of the Federal Reserve Board's Regulation L, consideration will be given to any additional facts or arguments not appearing in his application and accompanying forms, which he feels should be brought to the Board's attention, and that also, in accordance with Section V (i) of the same regulation, he may be afforded an opportunity to be heard in connection with the revocation of his permit. In this connection, please advise the Board promptly as to whether Mr. Schmidt desires to submit any additional data or to have a hearing, and, if not, as to what steps he proposes to take in order to comply with the provisions of the Clayton Act."

Approved.

Letters dated October 9, 1934, approved by four members of the Board, to applicants for permits under the Clayton Act, advising of

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approval of their applications as follows:

Mr. James M. Dunn, for permission to serve at the same time as a director of The First National Bank of Clifton, Clifton, New Jersey, and as a director of The Clifton Trust Company, Clifton, New Jersey.

Mr. Kenneth H. Robinson, for permission to serve at the same time as a director of The First National Bank of Clifton, Clifton, New Jersey, and as a director and officer of The Clifton Trust Company, Clifton, New Jersey.

Mr. George J. Smith, for permission to serve at the same time as a director of The First National Bank of Clifton, Clifton, New Jersey, and as a director and officer of The Clifton Trust Company, Clifton, New Jersey.

Approved, together with a letter, also dated October 9, 1934, and approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, inclosing copies of the Clayton Act permits referred to above; suggesting that the agent endeavor, in cooperation with the appropriate supervisory authorities, to bring about a strengthening of the capital structure of The First National Bank of Clifton and a correction of the matters criticized by the examiner; and requesting that, when the agent submits his recommendations, as a result of his annual review of the permits, he report fully as to the progress made in bringing about an improvement in the condition of The First National Bank of Clifton.

Letter dated October 9, 1934, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the application, submitted with your letter of August 22, 1934, of Mr. J. W. Barton, for permission under the Clayton Act to serve as a director of The Central National Bank of Minneapolis and as an employee of the Federal Reserve Bank of Minneapolis.

"In its letter of April 29, 1933, X-7425, the Board stated that it believes that officers and employees of Federal reserve banks occupying responsible positions should give their entire time and attention to the affairs of the bank and not be identified with any outside business interests, and the Board has taken

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"the position in all cases that employees of Federal reserve banks occupying responsible positions should not be officially connected with outside business concerns, and that any such affiliations should be discontinued as soon as possible. Accordingly, in its letter to you of October 5, 1933, in connection with the service of Mr. G. Brudvik, field representative, as an inactive vice president and director of the Renville County Bank of Mohall, North Dakota, the Board expressed the opinion that Mr. Brudvik's official connection with the institution should be terminated promptly and that he should dispose of the stock of the bank held by him as soon as it was possible for him to do so without resulting in undue hardship. In your letter of December 21, 1933, you advised that Mr. Brudvik's resignation had been accepted by the Renville Bank.

"In view of these circumstances, the Board is unwilling to grant Mr. Barton's application, and if he is to be retained in his present position of manager of the industrial loan department of your bank, his connection with The Central National Bank of Minneapolis should be terminated as soon as it is possible for him to do so.

"In this connection, you refer in your letter of August 22, 1934, to Mr. Barton's indebtedness of \$35,600 to the First National Bank of Minneapolis. It appears from the statement of indebtedness submitted by Mr. Barton under date of July 17, 1934, that this indebtedness is secured by stocks and bonds and a life insurance policy; the indebtedness being the balance due on an original indebtedness of \$76,000 apparently incurred for the purpose of making investments. It is noted from your report attached to the Clayton Act application that \$20,000 of the indebtedness has been set up by the examiner of the national bank as a loss, with the comment that 'the loan is undermargined and the debtor has no means to pay it'.

"The report of examination of the Metropolitan National Bank of Minneapolis as of April 5, 1930, showed Mr. Barton as vice president of that institution and in the confidential section of the report the examiner stated in part as follows:

'The condition of the assets and affairs of this bank, generally speaking, can now be classed as entirely satisfactory. This has been brought about through its affiliation with the Northwest Bancorporation of Minneapolis, Minn.

'The trouble examiners have had in the past to curb Vice President Barton's activities are a matter of record in your office. It is now "water over the dam", so I do not feel it is necessary to go over it again - suffice to say his wings have been clipped.

'Mr. Barton is a good banker - the only

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"trouble is, he is too anxious for business and too ready to take chances to get it. His dealings with W. B. Foshay are a good example of what he will do. He has at various times accommodated Foshay in amounts of upwards of \$300,000.00 when other bankers in Minneapolis would have nothing to do with him and yet when the crash came, he came out of it clean.

'Something over \$500,000.00 in paper was rejected when control passed to the Bancorporation

.....'

"The examination reports of the Northwestern National Bank of Minneapolis, made following the purchase by that institution of the business of the Metropolitan National Bank, indicated the probability of losses resulting from the transaction. It is the Board's understanding that Mr. Barton became an officer of the Northwest Bancorporation after the Northwestern National Bank took over the business of the Metropolitan National Bank, and that some time thereafter his connection with the Corporation was terminated.

"The Board appreciates the emergency circumstances under which Mr. Barton was employed, but it is assumed that careful consideration was given to: (1) whether Mr. Barton's indebtedness would have any adverse effect upon his service to your bank, and (2) whether there was anything in his record with the Metropolitan National Bank or the Northwest Bancorporation which would raise any substantial question as to his desirability as an employee of the bank; and that you were satisfied that he was a suitable person for the position, notwithstanding the unfavorable factors involved.

"In your letter of August 22, you state that the decision as to whether Mr. Barton's indebtedness under the conditions existing would appear to prohibit his connection with your bank, must lie with the Federal Reserve Board. The primary responsibility for the selection of employees of a Federal reserve bank rests with the board of directors of the bank, and it is suggested that if there is any question as to the suitability of Mr. Barton for the position now occupied by him in your bank, the matter be submitted, with a full statement of details, to your directors for a decision.

"It is requested that you advise the Board of the further consideration given by you to this matter, and, if it is submitted to your directors, the Board desires to be advised of their decision thereon."

Approved.

Letter to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, inclosing the following Clayton Act permit; stating that, before releasing the permit to the applicant, the agent is requested

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to determine to his satisfaction that the applicant's non-banking relationships are in conformity with the provisions of section 8A of the Clayton Act, in which event the agent is authorized to release the permit to the applicant; and requesting that the agent advise the Board of his disposition of the matter in order that its records may be complete. The letter also requested that, when the agent submits his recommendation as a result of his annual review of the permit, he report fully as to the progress made by the applicant in liquidating his obligations to the banks involved and in effecting an improvement in his financial affairs.

Mr. C. W. Floyd, for permission to serve at the same time as a director and officer of the Sedan State Bank, Sedan, Kansas, and as a director of The Union Stockyards National Bank, Wichita, Kansas.

Approved.

Letter to an applicant for a permit under the Clayton Act, advising of approval of his application as follows:

Mr. R. J. MacBean, for permission to serve at the same time as an officer of the Republic National Bank and Trust Company of Dallas, Dallas, Texas, and as a director of the First National Bank in Honey Grove, Honey Grove, Texas.

Approved, together with a letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"The Board has reconsidered the application of Mr. R. J. MacBean, Dallas, Texas, for permission under the provisions of the Clayton Act to serve at the same time as an officer of the Republic National Bank and Trust Company of Dallas, Dallas, Texas, and as a director of the First National Bank in Honey Grove, Honey Grove, Texas, and, in view of the additional information submitted and the expressed intention of Mr. MacBean to attend the directors' meetings of the First National Bank in Honey Grove in the future, has granted the permit.

"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

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"serving through attendance at directors' meetings and it is suggested that you inform Mr. MacBean that it is with the expectation that he will satisfactorily attend directors' meetings of the Honey Grove 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. MacBean's attendance at directors' meetings."

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

Mr. Frank E. Langer, for permission to serve at the same time as a director and officer of The First National Bank of Poulsbo, Poulsbo, Washington, and as a director and officer of the Kitsap County Bank, Port Orchard, Washington.

Approved.

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

Mr. L. N. Dibrell, for permission to serve at the same time as a director of The First National Bank of Danville, Danville, Virginia, and as a director and officer of the Danville Loan and Savings Corporation, Danville, Virginia.

Mr. Austin S. Igleheart, for permission to serve at the same time as a director of The Grace National Bank of New York, New York, New York, and as a director of The Old National Bank in Evansville, Evansville, Indiana.

Mr. John Denman, Jr., for permission to serve at the same time as a

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director of The Citizens National Bank in Independence, Independence, Kansas, and as a director of the Sedan State Bank, Sedan, Kansas.

Mr. A. Finsterwald, for permission to serve at the same time as a director and officer of The First National Bank of Wheeler, Wheeler, Texas, and as a director and officer of the First State Bank, Mobeetie, Texas.

Mr. W. G. Stiles, for permission to serve at the same time as a director and officer of The First National Bank of Wheeler, Wheeler, Texas, and as a director of the First State Bank, Mobeetie, Texas.

Mr. Geo. C. Bassett, for permission to serve at the same time as a director and officer of The Capital National Bank of Sacramento, Sacramento, California, and as a director and officer of the Citizens Bank of Sacramento, Sacramento, California.

Mr. G. E. Zoller, for permission to serve at the same time as a director and officer of The Capital National Bank of Sacramento, Sacramento, California, and as a director and officer of the Citizens Bank of Sacramento, Sacramento, California.

Mr. G. H. Greenwood, for permission to serve at the same time as a director and officer of The Pacific National Bank of Seattle, Seattle, Washington, and as a director of the Seattle branch of the Federal Reserve Bank of San Francisco, Seattle, Washington.

Mrs. L. B. Howard, for permission to serve at the same time as a director and officer of the Pasadena National Bank, Pasadena, California, as a director and officer of the Hollywood State Bank, Los Angeles, California, and as a director and officer of the Broadway State Bank, Los Angeles, California.

Mr. E. F. Nolting, for permission to serve at the same time as a director and officer of the Pasadena National Bank, Pasadena, California, and as a director and officer of the Bank of Beaumont, Beaumont, California.

Approved.

At this point Mr. Goldenweiser, Director of the Division of Research and Statistics, joined the meeting, and stated that under date of September 26, 1934, Governor Hamilton of the Federal Reserve Bank of Kansas City, addressed a letter to him requesting any data which the Committee on Legislative Program may have assembled on the subject of central banking which he

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might use in the preparation of an address to be delivered before the Nebraska bankers convention in November; that, in response to Governor Hamilton's request, he had called attention to certain information on the subject referred to and had stated that it was assumed that Governor Hamilton was not planning to discuss the broad controversial question of the merits of a central bank as against the Federal reserve banking system; and that under date of October 8, 1934, Governor Hamilton had written a letter in reply which read in part as follows:

"It strikes me that should I in my address before the Nebraska Bankers Association, undertake to show 'The important things are the growth in the volume of trade and employment and the restoration of incomes and real purchasing power, and not the available supply of currency which, under the operation of the Federal Reserve System, is automatically adjusted to public requirements', (this was one of the suggestions contained in Mr. Goldenweiser's letter to Governor Hamilton as a matter to which he might call attention in his address) I would be discussing subjects fully as controversial as the question of central banking.

"For that reason I will ask you to lay before the Federal Reserve Board the third paragraph of your letter which, quoted is as follows:

'I don't know, of course, what the subject of your address is to be, but assume that you are not planning to discuss the broad controversial questions of the merits of a central bank as against the Federal Reserve banking system.',

to determine whether you have offered this as your own idea or as a reflection of the Board's opinion. Frankly, I intended to talk upon the subject of 'Central Banking'. I had planned to give historical data concerning the fate of government owned and operated central banks, discuss briefly the set up of existing central banks in the principal countries, together with the new Central Bank of Canada, give an outline of the Federal Reserve System as a central banking institution, calling attention to how it differs from existing central banks in other countries, and government owned and controlled central banks, leaving it largely to the judgment of the bankers present to form their own conclusions as to which kind of a central bank may best serve the financial needs of this country. I had no intention of calling particular attention to any proposed plan of a new central bank or to criticize any administration policies, and I don't see that a presentation of this

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"kind would be entering an objectional controversial field. I fully intended to call attention to the manner in which the Reserve banks have adapted their operations to conditions and problems existing in their respective districts, but in this I would be presenting facts and not theory.

"May I say that I cannot see that there would be anything objectionable in discussing central banking, but in view of the paragraph of your letter quoted above, I hesitate to publicly discuss the subject if it is objectionable to the Federal Reserve Board. Please advise me at your earliest convenience concerning the subject matter of this letter, and oblige,"

All of the members of the Board present expressed the opinion that it would not be desirable for Governor Hamilton to make an address on the subject of central banking at this time, and Mr. O'Connor suggested that Governor Hamilton in his talk, and other officers of Federal reserve banks in talks to bankers, could render a real service to the Federal Reserve System by speaking on the contribution which the System had made to banking, business and agriculture in the United States and the assistance which it has rendered in meeting the problems related thereto.

At the conclusion of the ensuing discussion, Mr. Goldenweiser was requested to advise Governor Hamilton that the Board is in agreement with the suggestion that it would be undesirable for him to speak on the controversial question of central banking at the present time, and to suggest that the most profitable subject of discussion at this time would be along the lines of the service which the Federal Reserve System has rendered and is rendering to the business of the country.

At this point Mr. Goldenweiser left the meeting.

Reference was then made to a letter dated August 15, 1934, from Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, with regard to the examination by the Federal reserve bank of private banks pursuant to the provisions of section 21(a) of the Banking Act of 1933, and raising a

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question as to (1) what action, if any, should be taken by the Federal reserve bank for the protection of the depositors of any private bank which may be found by examination to be insolvent, and (2) what responsibility, if any, does the Federal reserve bank have in connection with the matter of reporting to the appropriate State authorities any apparent violations of the criminal provisions of State laws that might be disclosed by Federal reserve bank examinations of private banks. At the suggestion of Mr. James, the questions raised in Mr. Walsh's letter had been referred to counsel for consideration of the legal questions involved, and there was read a memorandum submitted by Mr. Boatwright, Assistant Counsel, under date of September 13, 1934, stating that it is clear that, under the provisions of section 21(a) (2) of the Banking Act of 1933, a Federal reserve bank has no authority to supervise private banks submitting to examination or to require the correction of unsatisfactory conditions in such banks; that, since a Federal reserve bank has no such power, it follows that it is under no legal duty to attempt to supervise such banks or to correct unsatisfactory conditions; and that as a matter of law, therefore, it appears that a Federal reserve bank is under no duty to take any action for the protection of depositors of any private bank which is insolvent or to report to State authorities apparent violations of the criminal provisions of State laws. The memorandum also stated that, however, there is nothing in the law which will prevent a Federal reserve bank from exerting its best efforts to induce a private bank to correct existing unsatisfactory conditions, whether or not the bank is insolvent, and it is believed that each Federal reserve bank should adopt a constructive attitude in this respect, and that, subject to the exercise of discretion, a Federal reserve

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bank might properly report apparent violations of criminal provisions of State laws to the appropriate State supervisory authorities.

After discussion of the question whether Congress intended that the Federal reserve banks should have any duty or responsibility under the section of the law referred to, Mr. Hamlin moved that the policy suggested in the last two sentences of the last paragraph of Mr. Boatwright's memorandum be adopted, and that the Division of Examinations be requested to prepare a draft of letter to the Federal reserve agents at all Federal reserve banks advising them accordingly.

Carried.

Mr. Thomas called attention to an application for full fiduciary powers submitted by the "First National Bank in Greensburg", Greensburg, Pennsylvania, and he outlined briefly the circumstances involved in the application as set forth in a memorandum submitted by the Division of Examinations under date of September 29, 1934. He also referred to the criticisms of the management of the bank and to the recommendation of the Division of Examinations that the Federal reserve agent be advised that the official personnel of the applicant bank, as at present constituted, is not satisfactory or competent to properly conduct the bank's affairs, that the Board is unwilling to grant trust powers to the bank until a satisfactory correction of the management problem is made, which should include readjustment of the executive salaries now being paid and the employment of a competent executive officer who was not connected with the old bank, all to be satisfactory to, and subject to approval by, the Comptroller of the Currency, and that, pending receipt of information that satisfactory action has been taken, further consideration of the application will be deferred. Mr. Thomas stated that the predecessor national bank had trust accounts

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totaling approximately \$8,000,000, and that the applicant bank desires authority to exercise trust powers in order that it may acquire this trust business and benefit from the earnings therefrom, and he raised the question as to whether trust powers could be granted subject to the condition that the bank will make the necessary corrections in its management. In this connection, it was pointed out that it had been the policy of the Board in the past not to grant trust powers conditionally.

A discussion ensued, at the conclusion of which Mr. James moved that the application, together with the memorandum prepared by the Division of Examinations, be referred to the Comptroller of the Currency with the request that he investigate the possibility of effecting a satisfactory correction in the management of the bank before action is taken by the Board on the application for trust powers, and that he advise the Board with regard thereto.

Carried.

Mr. Szymczak referred to the activities now being carried on by the Federal Housing Administration under the authority granted by the National Housing Act, and he suggested that, as the Federal reserve banks may be looked to by banks in their respective districts for information with regard to loans under the National Housing Act, it might be desirable for the Federal Reserve Board to invite Mr. James A. Moffett, Federal Housing Administrator, and Mr. Roger Steffan, Director of Modernization Credits, to meet with the Board and outline the administration's activities and purposes, following which consideration could be given to the desirability of suggesting to each Federal reserve bank that it invite representatives of the Federal Housing Administration to discuss the matter with its staff. A general discussion ensued during which the suggestion

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was made that, inasmuch as the Board intends to hold meetings in Washington with the directors of the Federal reserve banks and their branches, it might be desirable to have representatives of the Federal Housing Administration present at such meetings to outline the administration's activities.

At the conclusion of the discussion, upon motion by Mr. Szymczak, Vice Governor Thomas was requested to confer with Mr. Moffett, and, if he is agreeable to the suggestion, to fix a date when he and Mr. Steffan will meet with the Board and its staff for the purpose of discussing the program and activities of the Federal Housing Administration.

During the discussion of the above matter, reference was made to the program for the meetings of the Board with the directors of the various Federal reserve banks and branches, and Mr. James called attention to the expense involved in, and time required to attend, the contemplated meetings, and he stated that it was extremely important that a well prepared program be arranged which will justify the time and expense involved.

It was decided that consideration should be given to this matter by the members of the Board and that a meeting of the Board would be held on Friday, October 12, 1934, for the purpose of discussing it further.

Mr. Wyatt suggested that the Board authorize the publication in current issues of the Federal Reserve Bulletin of the text of the rulings issued and made public by the Board interpreting Regulation T.

Mr. Wyatt's suggestion was approved.

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Thereupon the meeting adjourned.

Assistant Secretary.

Approved:

Vice Governor.