

A meeting of the Federal Reserve Board was held in Washington on Tuesday, November 20, 1934, at 3:00 p. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The Secretary stated that, in view of the increase in the staff of the Governor's office, it will be necessary for the Board to acquire additional space in the Washington Building, that approximately 600 square feet of space are available on the sixth floor of the building adjoining space now occupied by the Board on that floor, and that it has been ascertained that the additional space can be leased under the same conditions as are contained in the lease covering the space now occupied by the Board in the Washington Building, and at an annual rental of \$1,257.21.

The Board authorized the Governor to execute a supplemental lease covering the space referred to at the annual rental stated above.

The Board then acted upon the following matters:

Letter dated November 19, 1934, approved by five members of the Board, to Mr. Williams, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of November 13, 1934, advising of the appointment by your directors of Mr.

11/20/34

-2-

"T. J. Griggs as Managing Director of your Pittsburgh Branch, and of Mr. George H. Wagner as Cashier of the Branch.

"The Federal Reserve Board approves, effective immediately, the salary at the rate of \$12,000 per annum fixed by your directors for Mr. Griggs in his new position, and the salary at the rate of \$9,000 per annum fixed for Mr. Wagner, it being understood that the latter salary is to become effective on January 16, 1935, on which date Mr. Wagner's appointment as Cashier of the Branch will take effect."

Approved.

Letter dated November 19, 1934, approved by five members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of Mr. Fletcher's letter of October 31, 1934, transmitting a copy of a letter dated October 23, 1934, from Mr. B. Woodford, Cashier of the 'Bourbon-Agricultural Bank & Trust Company', Paris, Kentucky, requesting that the Board modify the requirement covering the deposit or use of trust funds in the bank's commercial department which is contained in condition numbered 17 to which the bank agreed at the time of its admission to membership, to the extent that such requirement shall apply only to trust funds that are not insured under the provisions of the Banking Act of 1933.

"Section 11(k) of the Federal Reserve Act requires that funds deposited or held in trust by a national bank awaiting investment shall be carried in a separate account and 'shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board'. This provision of section 11(k) was not repealed or qualified by the provisions of the Banking Act of 1933 relating to the insurance of bank deposits and, accordingly, this requirement is still effective with respect to trust funds of national banks which are used by the banks in the conduct of their business.

"It was the intention of the Board in prescribing the condition of membership above referred to in connection with the admission of the Bourbon-Agricultural Bank & Trust Company and other State banks to the Federal Reserve System that they should be subject to the same requirement in this respect as are national banks which exercise fiduciary powers. As the requirement is not changed as to national banks by

11/20/34

-3-

"reason of the insurance of bank deposits the Federal Reserve Board does not feel that it should be modified on that account for State member banks which are subject to the condition in question. You are requested, therefore, to advise the Bourbon-Agricultural Bank & Trust Company that its trust department may not by reason of the provisions for insurance of bank deposits return to the bank any portion of the securities required to be pledged with the trust department under the condition of membership in question. In this connection, your attention is directed to the ruling of the Board published on page 121 of the February, 1934, Federal Reserve Bulletin."

Approved.

Letter dated November 19, 1934, approved by five members of the Board, to "The Citizens National Bank of Petersburg", Petersburg, Virginia, 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 Virginia, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

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

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

Approved, together with a letter, also dated November 19, 1934, and approved by five members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

11/20/34

-4-

"There is inclosed herewith the letter the Board today has addressed to The Citizens National Bank of Petersburg, Petersburg, Virginia, advising of the Board's approval of the application of that bank for permission to exercise fiduciary powers.

"It has been noted that the executive committee of your bank has recommended that the Board's approval of the application of The Citizens National Bank of Petersburg for trust powers be granted subject to two conditions and that you have suggested in your letter of July 6, 1934, that you might obtain a resolution of the board of directors of the bank accepting these conditions before the inclosed authorization is delivered to the bank. Under the provisions of section 11(k) of the Federal Reserve Act the Board is authorized to prescribe regulations to enforce the proper exercise of trust powers by national banks and it is not the Board's practice to prescribe conditions in connection with the granting of permission to national banks to exercise such powers. In this connection, it has been observed that Mr. C. E. Plummer, President of The Citizens National Bank of Petersburg, in the letter he addressed to you under date of August 28, 1934, at the direction of the bank's board of directors, has given you assurances that the bank would not sell any of its assets to its trust department and would not qualify in any trust handled by the predecessor bank which held assets purchased from the latter. This letter, of course, was received by you subsequent to your letter to the Board of July 6, 1934, making recommendation with regard to prescribing conditions in this case and it is not entirely clear, therefore, whether you still feel that it is necessary to obtain a resolution of the board of directors of the bank to the effect that the bank would not sell any of its assets to its trust department and would not qualify in any trust handled by the predecessor bank which held assets purchased from the latter. However, the Board has no objection to you obtaining such a resolution prior to the delivery of the inclosed letter to the Citizens National Bank of Petersburg, if, in view of all the circumstances involved, you deem it desirable."

Telegram dated November 19, 1934, approved by five members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, stating that the Board has given consideration to the application of "The Colonial Trust Company", Pittsburgh, Pennsylvania, for a voting permit under the authority of

11/20/34

-5-

section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The Greenville National Bank", Greenville, Pennsylvania, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"Prior to the issuance of the limited voting permit authorized herein, and prior to December 31, 1934,

"(1) Applicant shall, if it has not already done so, charge off or otherwise eliminate from its assets, (a) such part of the carrying value of stocks of its subsidiary banks as may be in excess of the adjusted value of such stocks, after effect shall have been given to the elimination by such banks of all estimated losses, all depreciation in stocks and defaulted securities, and depreciation in all other securities not of the four highest grades as classified by an investment service organization regularly engaged in the business of rating or grading securities (less net appreciation in securities of the four highest grades and any appreciation in securities not of the four highest grades), as shown by reports of examination of the Freehold Bank and The Greenville National Bank as of May 26, 1934 and June 4, 1934, respectively, or with respect to depreciation in readily marketable securities, based upon the current market values of such securities, (b) all estimated losses in loans and discounts, (c) all estimated losses in stocks and defaulted securities, (d) all depreciation in securities not of the four highest grades as classified by an investment service organization regularly engaged in the business of rating or grading securities (less net appreciation in securities of the four highest grades and any appreciation in securities not of the four highest grades), and (c) all other losses, such charge-offs and eliminations to be based upon the report of examination made by a Federal reserve bank examiner as of May 26, 1934, or with respect to items (c) and (d) upon current market values of readily marketable securities;

"(2) Applicant shall cause each of its subsidiary banking institutions to charge off or otherwise eliminate from its assets, if it has not already done so, (a) all estimated losses in loans and discounts, (b) all estimated losses in stocks and defaulted securities, (c) all depreciation in securities not of the four highest grades as classified by an investment service organization regularly engaged in the

11/20/34

-6-

"business of rating or grading securities (less net appreciation in securities of the four highest grades and any appreciation in securities not of the four highest grades), and (d) all other losses, such charge-offs and eliminations to be based upon the latest available reports of examination of the respective banks, or with respect to items (b) and (c) upon current market values of readily marketable securities;

"(3) Applicant shall obtain and deliver to you Exhibit L, F.R.B. Form P-3 and Exhibit N, F.R.B. Form P-4, covering River Sand Company;

"(4) Applicant shall agree as follows: First. That within such time as shall be fixed by the Federal Reserve Agent at the Federal Reserve Bank of Cleveland (hereinafter referred to as the Federal Reserve Agent), the undersigned will make, and will cause each of its subsidiary banking institutions to make, such corrections as shall be requested by the Federal Reserve Agent in order to remove the cause of any criticisms relating to any feature of its or their practices, policies, management or financial condition which have been made by the appropriate supervisory authorities or the Federal Reserve Agent; Second. That all assets of the undersigned and its subsidiary banks which may be charged off or otherwise eliminated will remain the property of the bank making such charge-offs or eliminations and will not be distributed to the shareholders thereof, or otherwise released in any manner except for cash or its equivalent and/or other marketable assets."

and for the following purposes:

"1. To elect directors of such bank at the annual meeting of shareholders or at any adjournments thereof, at any time prior to February 1, 1935, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

"2. To authorize the issuance by such bank of common stock and/or preferred stock of one or more classes, in such amounts and with such par values as may be approved by the Comptroller of the Currency and the Federal Reserve Agent at the Federal Reserve Bank of Cleveland, and to make such amendments to its articles of association and by-laws as may be necessary for such purpose, at any meeting of the shareholders of such bank, or at any adjournments thereof, at any time prior to December 31, 1934."

The telegram stated also that, although paragraph 9 of F.R.B. Form P-1 executed by the applicant states that the stock certificates of

11/20/34

-7-

the applicant do not represent stock of any other corporation, Exhibit M indicates that the applicant may have misconstrued the paragraph and requested that the agent ascertain and advise the Board whether the representation by the applicant in paragraph 9 is accurate. The telegram authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to The Colonial Trust Company, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Letter dated November 19, 1934, approved by five members of the Board, to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to the voting permit application filed by the First Trust Company, St. Joseph, Missouri, and the application for membership filed by the First State Bank of St. Joseph, St. Joseph, Missouri.

"In reviewing the information submitted, it appears that the First National Bank of St. Joseph exercises indirect control over the affairs of the First State Bank of St. Joseph within the meaning of section 2(c) of the Banking Act of 1933, in that all of the capital stock, except directors' qualifying shares, of First Trust Company, St. Joseph, Missouri, is held by 'The President of the First National Bank of St. Joseph, Missouri, in office from time to time, Trustee' and in that 'No person shall be eligible for the office of director of said Trust Company who is not a director of said bank or its successor *** and if any such director after his election shall cease, for any cause, to be a director of said bank or its successor, he shall ipso facto cease also to be a director of said Trust Company'. Consequently it will be necessary for the First National Bank of St. Joseph to file an application for a voting permit before final consideration is given to the application for membership of the First State Bank of St. Joseph unless action is taken to terminate the existing

11/20/34

-8-

"relationship. Since the report of examination of the First National Bank of St. Joseph as of May 16, 1934, as well as information regarding such bank's organization, is available to the Board through the office of the Comptroller of the Currency, and since this office is already in possession of information in regard to the First Trust Company, First State Bank of St. Joseph, Buchanan Securities Company, and National Safe Deposit & Investment Company, the national bank need not file all exhibits usually required. At this time, the national bank need file only F.R.B. Form P-1 and Exhibits A, C, G, L, N and Q, together with any other information which in your opinion is necessary to set forth clearly the relationships between it and its subsidiaries and affiliates. The application of the national bank should contain a statement that the information contained in the voting permit application filed by the First Trust Company is incorporated by reference in the application of the national bank. The national bank should be advised, however, that additional information and exhibits may be required if, after consideration of the items listed above, they appear to be necessary.

"Although Regulation P does not specifically so state, Exhibit A of the voting permit application to be filed by the First National Bank of St. Joseph should include the First State Bank of St. Joseph followed by the words (Applicant for Membership). Exhibit A of the application filed by the First Trust Company should be amended so as to include the name of the First State Bank of St. Joseph. In this connection, there is inclosed a 'Request for Amendment' of Exhibit A of the voting permit application filed by the First Trust Company, which should be executed in triplicate by one of the officers named in Exhibit C of such application. Two executed copies of such 'Request for Amendment' should be forwarded to the Board, and the third should be retained for the records of your office.

"In order that all of the above mentioned applications may be presented to the Board for simultaneous consideration at the earliest practicable date, it will be appreciated if you will impress upon the First National Bank of St. Joseph the need for filing its application for a voting permit as soon as possible."

Approved.

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

"There are inclosed the original and copies of a Clayton

11/20/34

-9-

"Act permit granted to Mr. Samuel M. Aller, 55 Wall Street, Norwalk, Connecticut, to serve at the same time as director of The Merchants Bank & Trust Company, Norwalk, Connecticut, and as director of The City National Bank of South Norwalk, South Norwalk, Connecticut, for transmittal by you to Mr. Aller and the two banks, and a copy for your files.

"Confidentially, in considering the application of Mr. Aller, it was noted that the examiner for the Federal Deposit Insurance Corporation in his report of examination of The Merchants Bank & Trust Company of Norwalk as of May 1, 1934, considered that bank to be in an unsatisfactory condition, the total capital structure being approximately \$53,000 less than criticized items of estimated losses, securities depreciation and doubtful assets. In the confidential section of his report, the examiner stated that the bank was insolvent but that he believed that additional capital to be forthcoming from the Reconstruction Finance Corporation might restore the bank to a solvent condition. On June 18, 1934, additional capital in the amount of \$98,900 was secured through the sale of preferred stock to the Reconstruction Finance Corporation; but it is noted that, after giving consideration to the additional capital provided and based upon the report of examination as of May 1, 1934, net sound capital amounted to only 4 $\frac{1}{2}$ % of deposits. This bank was reorganized in 1931 under a plan by which \$300,000 of new capital was secured, largely from depositors, and it appears that the operations of the last three years have resulted in the loss of the entire \$300,000. The difficulties of the bank were attributed to the present management which was not regarded as safe by the examiner, who stated that the directors take little interest in the affairs of the institution.

"Mr. Aller has been a director of The Merchants Bank & Trust Company since its reorganization three years ago and apparently shares in the responsibility for the bank's unsatisfactory condition. On the other hand, it is reported that he is one of the better or more desirable directors of the bank, he is the only interlocking director or officer serving the two institutions, his attendance at the directors' meetings of both banks has been good, and there is no indication of any abuse of the credit facilities of the banks by the applicant, his family or his interests.

"In all the circumstances, the Board has granted a permit, to continue in effect however, only to the close of December 31, 1934. When the permit is sent to the applicant it is suggested that you call his attention to the limited status of the permit and advise him that the Board will give consideration to a new application filed in accordance with the Board's Regulation L, provided such application is accompanied by full information with respect to any subsequent improvement

11/20/34

"in the condition and management of The Merchants Bank & Trust Company and as to Mr. Aller's responsibility or lack of responsibility for the condition of that institution and that a satisfactory showing is made that his services would not be incompatible with the public interest.

"Please keep the Board informed of the action taken in this matter."

Approved.

Thereupon the meeting adjourned.

C. E. M. M. M. M.
Secretary.

Approved:

M. S. S. S.
Governor.