A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Friday, November 30, 1934, at 4:00 p.m.

PRESENT: Mr. Eccles, Governor
Mr. Hamlin
Mr. Szymczak

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

The Committee acted upon the following matters:

Letter dated November 28, 1934, approved by five members of the Board, to the board of directors of "The Pennsylvannia Exchange Bank", New York, New York, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York.

Approved.

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

"Reference is made to Mr. Fletcher's letter of November 16, 1934, regarding 'The American Trust & Savings Bank of Middletown', Middletown, Ohio.

"Mr. Fletcher states that the report of examination of the bank as of October 22, 1934, reflects a capital impairment of approximately $75,000, after allowance for estimated losses of $43,500 and depreciation of $36,000 in stocks, defaulted bonds, and securities other than in the four highest grades, but that in the opinion of your office the capital structure as it stands with $250,000 capital debentures offers sufficient protection to the depositors. In this connection it is noted that the net sound capital of the bank after allowance for all estimated losses, doubtful assets, and depreciation in securities as shown in the report of examination as of October 22, 1934,
"amounts to 13.4 per cent of deposits.

"It is understood that under the present State laws the common capital cannot be reduced below the present amount of $150,000 nor can the surplus of $50,000 be reduced below $30,000. Consideration has been given to the suggestion advanced in Mr. Fletcher's letter that, in order to provide for the elimination of estimated losses and depreciation in lower grade securities, the First and Merchants National Bank, Middletown, a holding company affiliate of the trust company by reason of the fact that the stock of the trust company is trusted for the benefit of the shareholders of the national bank, contribute approximately $100,000 to the trust company, and that this proposal be discussed with the Comptroller of the Currency.

"The report of examination of the national bank as of April 23, 1934, showed capital stock of $400,000 and surplus of $200,000 as compared with deposits of $2,419,000. The bank, however, has a substantial investment of $465,700 in banking house and furniture and fixtures, and it is understood that the chief national bank examiner at Cleveland is not in favor of the suggested contribution. It is understood, also, that the dividend policy of the bank has been the subject of discussion with the Comptroller's office and that the directors advised the Comptroller that the dividend of 1 per cent paid in June was reluctantly declared and that unless certain planned economies proved effective, future dividends would be discontinued without fail until such time as conditions justified payment of a dividend. In the circumstances, and on the basis of information available, the Board does not feel that it would be justified in requesting the Comptroller of the Currency to sanction the suggested contribution.

"It is understood that amendments to the State laws are under consideration whereby capital debentures may be considered as the equivalent of capital stock for the purpose of meeting minimum capital requirements.

"As stated in the letter dated April 4, 1934, X-7644a, the Board feels that State member banks should maintain the standards now prescribed for admission to membership and that accordingly estimated losses and depreciation in at least securities other than the four highest grades should be eliminated. In the circumstances, however, especially in view of the substantial amount of net sound capital as shown by the report of examination as of October 22, and the possible amendments to State law which would permit a reduction of common capital stock, it is believed that further action, other than to request the maximum amount of elimination possible under State law, by the Reserve Bank might be deferred for the time being pending developments. It is assumed, however, that every consideration will be given to plans which will enable
"the bank to eliminate all undesirable assets as soon as possible, either through eventual merger with the national bank on a sound basis, or in some other manner."

Approved.

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

"Reference is made to Mr. Fry's letter of November 22, 1934, enclosing a copy of a letter dated November 21, 1934, from President MoAdams, of the 'Union Trust Company of Maryland', Baltimore, Maryland, wherein the Board's permission is requested, in accordance with membership condition numbered 7, to hold until April 30, 1935, miscellaneous stocks acquired by the bank on July 30, 1934, in connection with debts previously contracted in good faith.

"The Board has previously granted the bank permission to hold until April 30, 1935, stocks which were acquired prior to July 25, 1934, and in view of the opinion expressed in Mr. Fry's letter, the Board extends to April 30, 1935, the time within which the stocks referred to in President MoAdams' letter of November 21, 1934, may be disposed of in accordance with membership condition numbered 7.

"It is requested that you advise the bank accordingly."

Approved.

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

"Reference is made to the consolidation on May 8, 1934, of the 'American State Bank' with the 'Frankenmuth State Bank', both of Frankenmuth, Michigan, under the charter of the latter institution, and to the Board's letter of June 19, 1934, in connection therewith.

"The Board has reviewed the information subsequently submitted and the report of examination of the Frankenmuth State Bank as of September 17, 1934, from which it appears that the transaction has resulted in no material change in the general character of the assets of or broadening in the scope of functions exercised by the member institution within the meaning of the general condition under which it was admitted to membership in the Federal Reserve System, which is in accordance with the opinion of your office. The Board, therefore, will take no action affecting the membership of the Frankenmuth State Bank
"in the Federal Reserve System by reason of the transaction."

Approved.

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

"Reference is made to the proposed reorganization program of 'The First State and Savings Bank of Mason, Michigan', a member bank, which program has been the subject of correspondence and discussion between your office and the Board's Division of Examinations.

It appears that plans are in process to organize a new bank to assume the deposit liability of The First State and Savings Bank of Mason in full, the new bank to be organized with preferred stock of $30,000 to be sold to the Reconstruction Finance Corporation and common stock of $25,000 to be sold to local interests at a premium to provide surplus of $5,000; and the management has indicated a desire for the new institution to become a member of the Federal Reserve System.

The capital structure of the present institution will be applied toward eliminating unsatisfactory assets, and, in this connection, it has been noted that estimated losses classified by the examiner exceed by approximately $5,000 the bank's total capital structure on the date of examination. It is assumed, however, that the plan contemplates that the new bank will not carry into its assets any of the assets classified as estimated losses by the examiner or any other known losses.

"After giving consideration to the corrections which it is contemplated will be accomplished as a result of the proposed plan, and also the improvements effected since the date of examination as indicated by the telegram from your office dated November 20, 1934, the Board feels that in view of the circumstances favorable consideration to an application for membership in the Federal Reserve System of a new bank organized in accordance with the proposed plan may be justified, provided, that assets acquired from the old bank will be at values determined by your examiners and such values will not include estimated losses in any assets or depreciation in stocks, defaulted bonds or securities other than those in the four highest grades, that the bank will have surplus, undivided profits and/or applicable reserves to cover any assets classified as doubtful and depreciation in higher grade securities and that, on the basis of the valuations as determined by your examiner, you are able to certify that the bank is a sound and solvent institution.

"It has been noted that all of the stock of the new bank
is to be purchased by stockholders of the old bank except 30 shares which are to be purchased by three individuals who are to become directors of the new bank. In view of the comparatively large volume of substandard assets which will be acquired by the new bank under the proposed plan, it is suggested that in the event an application for membership is made you satisfy yourself that the new stockholders are fully aware of the condition of the bank."

Approved.

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

"Receipt is acknowledged of your letter of November 19, 1934, with inclosures, relative to the transaction whereby the 'Montana Bank and Trust Co.', Great Falls, Montana, a member bank, acquired certain assets and assumed deposit liabilities amounting to approximately $75,000, of the Power State Bank, Power, Montana, a nonmember bank.

In view of the method whereby the absorption was handled, the comparatively small amount of deposit liability assumed, and the fact that practically all of the assets acquired consisted of cash and due from banks, it seems apparent that there has been no material change in the character of the business of, or in the scope of the corporate powers exercised by, the member bank, and the Board in accordance with your recommendation will interpose no objection to the transaction. It will not, therefore, be necessary for the Montana Bank and Trust Co. to apply to the Board for approval of its action in the premises."

Approved.

Letter to "The Tradesmens National Bank of New Haven", New Haven, Connecticut, 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
"Connecticut, 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 National Tradesmens Bank and Trust Company of New Haven, 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.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Mount Prospect National Bank of Newark', Newark, New Jersey, from $225,000 to $101,250, pursuant to a plan which provides that the bank's capital shall be increased by the sale of $48,750 of preferred stock to the Reconstruction Finance Corporation and/or others, and that the released capital shall be used to eliminate a corresponding amount of the least desirable assets in the bank, all as set forth in your memorandum of November 21, 1934.

"In view of the capital requirements imposed by the National Bank Act, the Board's approval of the proposed capital reduction is given with the understanding that you will rule that The Mount Prospect National Bank is located in an outlying section of the city of Newark, New Jersey, and may, therefore, lawfully reduce its capital below the amount necessary to organize a new national bank in a city the size of Newark.

"In considering the plan under which the reduction in common capital stock is to be effected, it has been noted that securities depreciation unprovided for, if considered as a loss, would substantially impair the bank's remaining common capital. It is assumed, however, that this matter is receiving the attention of your office."

Approved.

Telegram dated November 28, 1934, approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal
Reserve Bank of New York, stating that the Board has given considera-
tion to the application of "Roscoe Shareholders, Inc.", Roscoe, New
York, for a voting permit under the authority of section 5144 of the
Revised Statutes of the United States, as amended, entitling such
organization to vote the stock which it owns or controls in "The
First National Bank & Trust Company of Roscoe", Roscoe, New York,
and has authorized the issuance of a limited permit to the applicant
for the following purposes:

"1. To act at any time not later than December 31, 1934, upon any proposal for the creation and issuance of common and/or preferred stock by said bank and/or the reduction of the common stock of said bank and to make such amendments to the articles of association of said bank as may be necessary for such pur-
poses; provided, that such proposals shall be in accordance with a plan or plans approved by the Comptroller of the Cur-
rency and satisfactory to the Federal Reserve Agent at the Fed-
eral Reserve Bank of New York, and provided also that prior to, or simultaneously with, the action taken upon such proposals under this permit, said bank shall 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 deprecia-
tion in stocks and in defaulted securities, (c) All depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities, and (d) all other losses; as shown by the latest available report of examination of such bank made by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current market values of readily marketable securities.

"2. To elect directors of said bank at the annual meeting of shareholders, or at any adjournments thereof, at any time prior to April 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."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to Roscoe Shareholders,
Inc., a limited voting permit in accordance with the telegram.

Approved.

Telegram to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, stating that the Board has given consideration to the application of "The First National Company", Perth Amboy, New Jersey, for a voting permit under the authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The First National Bank of Carteret", Carteret, New Jersey, and has authorized the issuance of a limited permit to the applicant for the following purpose:

"To effect the voluntary liquidation of such bank and to take other action necessary in connection therewith including the ratification of contracts for the disposition of assets of the bank."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to The First National Company, a limited voting permit in accordance with the telegram.

Approved.

Telegram dated November 28, 1934, approved by four members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, stating that the Board has given consideration to the application of "Hamilton National Associates, Incorporated", Chattanooga, Tennessee, for a voting permit under the authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns.
or controls in "The Hamblen National Bank of Morristown", Morristown, Tennessee, and has authorized the issuance of a limited permit to the applicant for the following purposes:

"At any time prior to March 1, 1935, to act upon a proposal or proposals to reduce the common capital stock of The Hamblen National Bank of Morristown, Morristown, Tennessee, from $100,000 to $50,000 and to make such amendments to the articles of association and/or by-laws of such bank as may be necessary for such purpose, pursuant to a plan which shall have been approved by the Comptroller of the Currency and the Federal Reserve Board."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to Hamilton National Associated, Incorporated, a limited voting permit in accordance with the telegram, and stated that the agent is authorized to amend the standard form of permit by adding after the name of the grantee the words "or its nominees".

Approved, together with a letter, also dated November 28, 1934, and approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"The Federal Reserve Board approves a reduction in the common capital stock of 'The Hamblen National Bank of Morristown', Morristown, Tennessee, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by $100,000 of preferred stock to be sold to the Reconstruction Finance Corporation and that the released capital, together with a portion of the bank's surplus and undivided profits accounts, shall be used to eliminate approximately $70,350 of estimated losses and securities depreciation, all as set forth in your letter of November 12, 1934."

Letter dated November 28, 1934, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal
"Reference is made to your letter of October 11, 1934, and Mr. Young's letter of the same date transmitting your memorandum relative to the application of "Wisconsin Bankshares Corporation", Milwaukee, Wisconsin, for a permit under the provisions of Section 5144 of the Revised Statutes of the United States, as amended, to vote the shares owned or controlled by the Corporation of its subsidiary member banks.

"In authorizing the issuance of a limited permit on January 5, 1934, to Wisconsin Bankshares Corporation to vote the shares owned or controlled of its subsidiary member banks to elect directors, act upon matters of a routine nature, and act upon any proposal to create and issue common and/or preferred stock or to issue and sell capital notes or debentures, the Board expressed itself as 'particularly concerned that the future management of the applicant's subsidiary member banks be satisfactory to the respective Federal Reserve Agents in whose districts such banks are situated and to the appropriate supervisory authorities', and suggested that 'each such Federal Reserve Agent give consideration to the management of the applicant and its subsidiary member banks and advise the Board of his conclusions.' The information contained in your memorandum, and the accompanying reports of the subsidiary banks and companies showing their condition as of April 30, 1934, indicates very definitely the unsatisfactory condition existing with reference to the financial condition and management of Wisconsin Bankshares Corporation and its subsidiary banks and companies. It is understood that the management of First Wisconsin National Bank of Milwaukee, the key bank of the group, has recently been strengthened by the employment of William Taylor, formerly Chief National Bank Examiner of Seventh Federal Reserve District, as senior vice president, and at least two other officers. From the information submitted it is further understood that, upon the completion of the proposed rehabilitation program and the related adjustments in management and operating practices, the condition of the group as a whole will be materially improved.

"In accordance with the Board's policy with reference to the issuance of general voting permits, as expressed in its letter of September 28, 1934, (K-8028), the Board feels that the issuance of a general voting permit to Wisconsin Bankshares Corporation should be deferred until such holding company affiliate and its subsidiary member banks have obtained satisfactory management and show a sound financial condition and a satisfactory capital structure, after having eliminated, at least, all estimated losses in loans and discounts, all
"Depreciation in stocks and defaulted securities, all depreciation in securities not of the four highest grades, and all other losses, as shown by current examinations or credit investigations.

"Since it is understood that you and the various supervisory authorities are continuing your efforts to have the present rehabilitation and reorganization program of this group completed during the first half of 1935, it is suggested that, as soon as you are satisfied that the program is substantially consummated, you make arrangements for a simultaneous examination as contemplated in the Board's letter of January 20, 1934 (X-7763), and Mr. Paulger's letter of February 16, 1934 (Exam. 20), and, upon the basis of your analyses of the reports of such examination, submit your recommendations with reference to a general voting permit.

"Accordingly, the Board authorizes the issuance of a limited permit to Wisconsin Bankshares Corporation to vote the stock owned or controlled of its subsidiary member banks at any time prior to April 1, 1935, to elect directors, to transact matters of a routine nature, and to take such actions as may be necessary to effect the proposed rehabilitation program, as set forth in detail in the inclosed limited permit. In the event that the applicant desires to vote the stock of its subsidiary member banks for any purposes other than those hereby authorized, the Board will give consideration to the issuance of the necessary limited voting permit upon receiving a request for such permit and a detailed outline of the proposed plan or plans.

"You are authorized to date and deliver the original of the inclosed limited voting permit to the applicant, forwarding one copy to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis and two copies to the Board for its records and retaining one copy for your files, after you have received a favorable recommendation from the Executive Committee of, and the Federal Reserve Agent at, the Federal Reserve Bank of Minneapolis regarding the issuance of the limited voting permit with respect to the subsidiary member banks in that district, and after the applicant, with respect to Central Wisconsin Company, Madison, Wisconsin, Six Prospect Company, Milwaukee, Wisconsin, and Rock River Lumber & Fuel Company, Beloit, Wisconsin, has filed appropriate agreements on Exhibit L (F.R.B. Form P-3) and Exhibit N (F.R.B. Form P-4) or has submitted evidence satisfactory to Counsel for your bank that such filing is not required by the Board's Regulation P and the instructions on the forms referred to.

"From the information contained in your memorandum, it appears that there may be possible violations of Section 8A of the Clayton Antitrust Act in the group. It is understood from
"A conversation of the Board's examiners with Assistant Federal Reserve Agent Young that you have given consideration to the matter and that it has been called to the attention of the appropriate officials. All questions with regard to possible violations of the Clayton Antitrust Act should be satisfactorily disposed of prior to the issuance of a general voting permit, and, where possible, such questions should be disposed of prior to the issuance of the limited permit hereby authorized.

"Your memorandum indicates that the Wisconsin Securities Company ceased to be an affiliate of the subsidiary member banks of the applicant on August 16, 1934, by the resignation of five interlocking directors who were succeeded by new directors not connected with the applicant. It is assumed that you have satisfied yourself as to the termination of such affiliate relationship, but it is not altogether clear from the facts submitted that none of the directors or officers now serving the Wisconsin Securities Company is also serving a member bank. This matter should also be satisfactorily disposed of prior to the issuance of a general permit and it will be appreciated, therefore, if you will ascertain whether or not there exist in this group any violations of Section 32 of the Banking Act of 1933 and advise the Board as to your findings in the matter.

"The information submitted with your memorandum indicates that First Wisconsin Mortgage Company has made and sold mortgage loans aggregating in the principal amount approximately $14,800,000. It appears that such loans are secured by mortgages or deeds of trust on real estate, chiefly in Milwaukee County; that, in all but a few instances, all mortgages run to First Wisconsin Trust Company as mortgagee; and that the mortgage obligations are bearer obligations transferable by delivery. To assist the Board in its consideration of the issuance of a general permit, it will be appreciated if you will determine whether or not the bearer obligations which have been sold by First Wisconsin Mortgage Company could be classed as 'notes or other securities' within the meaning of the Banking Act of 1933 in the light of the Board's letter of April 13, 1934 (X-7859), and transmit to the Board your conclusions, together with an opinion of your Counsel, as to whether or not the activities of First Wisconsin Mortgage Company are such that its affiliation with member banks could be construed as a violation of Section 20 of the Banking Act of 1933.

"In your memorandum it was stated that 940 of the 1,000 outstanding shares of Central Wisconsin Trust Company of Madison, Wisconsin, and 910 of the 1,000 outstanding common shares of First Central Company of Madison, Wisconsin, were held by trustees for the benefit of stockholders of The First National Bank of Madison; and that 985 of the 1,000 outstanding shares of First Trust Company of Oshkosh, Wisconsin, and the entire stock.
"of First Investment Company of Oshkosh, Wisconsin, and First National Building Company of Oshkosh, Wisconsin, were held by trustees for the benefit of stockholders of First National Bank in Oshkosh (the applicant reported that First Investment Company of Oshkosh had been placed in liquidation and that First National Building Company had been liquidated). Inasmuch as such trusts indicate possible violations of Section 5139 of the Revised Statutes of the United States, as amended, it will be appreciated if you will ascertain and advise the Board whether all of such trusts have been terminated, and, if not, whether such trusts are still in force in the form shown by the exhibits submitted in connection with the voting permit application of Wisconsin Bankshares Corporation."

Approved, together with eight letters, also dated November 28, 1934, and approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'First National Bank of Wauwatosa', Wauwatosa, Wisconsin, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of $50,000 of preferred stock to the Reconstruction Finance Corporation and that the released capital, together with a voluntary contribution of approximately $36,000, shall be used in eliminating losses and other unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."

"In accordance with your recommendation the Federal Reserve Board approves a reduction in the common capital stock of the 'First National Bank of Oshkosh', Oshkosh, Wisconsin, from $750,000 to $500,000 pursuant to a plan which provides that the bank's capital shall be increased by $200,000 of preferred stock to be sold to the Reconstruction Finance Corporation and that the released capital, together with a portion of the bank's surplus, undivided profits and reserves shall be used to eliminate estimated losses and other unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."

"In accordance with your recommendation the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Menomonie', Menomonie, Wisconsin, from $200,000 to $100,000, pursuant to a plan which provides that the bank's capital shall be increased by $200,000 of preferred stock to be sold to the Reconstruction Finance Corporation and that the released capital, together with a voluntary
"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Pioneer National Bank of Ladysmith', Ladysmith, Wisconsin, from $50,000 to $20,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of $30,000 of preferred stock to the Reconstruction Finance Corporation, and that the released capital, together with a voluntary contribution of approximately $11,000, shall be used to eliminate losses and unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Union National Bank of Eau Claire', Eau Claire, Wisconsin, from $300,000 to $150,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of $250,000 of preferred stock to the Reconstruction Finance Corporation, and that the released capital, together with a portion of the bank's undivided profits, shall be used to eliminate losses and other unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Portage', Portage, Wisconsin, from $75,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of $100,000 of preferred stock to the Reconstruction Finance Corporation and that the released capital, together with a portion of the bank's surplus, undivided profits and reserves, shall be used in eliminating losses and other unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Berlin', Berlin, Wisconsin, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by $100,000 of preferred stock to be sold to the Reconstruction Finance Corporation and that the released capital, together with a portion of the bank's surplus, undivided profits and reserves, shall be used to eliminate estimated losses and other unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."
"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'First-Fond du Lac National Bank', Fond du Lac, Wisconsin, from $500,000 to $300,000, pursuant to a plan which provides that the bank's capital shall be increased by $200,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with a portion of the bank's surplus, undivided profits and reserves, shall be used to eliminate losses and other unsatisfactory assets, all as set forth in your memorandum of November 16, 1934."

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, stating that the Board has given consideration to the application of the "First Bank Stock Corporation", Minneapolis, Minnesota, for a voting permit under the authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The First National Bank of Rolla", Rolla, North Dakota, and has authorized the issuance of a limited permit to the applicant for the following purposes:

"To act at any time prior to March 1, 1935, upon a proposal or proposals to authorize or ratify the assumption of the deposit liabilities of The First National Bank of Rolla by the Benson County State Bank, Minnaukan, North Dakota and the sale of certain assets of The First National Bank of Rolla to the Benson County State Bank, and to place The First National Bank of Rolla in voluntary liquidation, all in conformity with a plan which shall have been approved by the Comptroller of the Currency and the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the First Bank Stock Corporation, a limited voting permit in accordance with the telegram.

Approved.
Telegram to the chairman of all Federal reserve banks, reading as follows:

"Referring Board's Trans 2165 of November 28, after giving subject further consideration and reviewing replies from Federal Reserve banks, Board has decided to call conference in Cleveland for 10 a.m. Tuesday, December 11. If you have not already done so, please wire Board name of representative of your bank and of Industrial Advisory Committee who will attend conference."

Approved.

Letter dated November 28, 1934, approved by three members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of November 19, 1934, with inclosures, with regard to the regulation of the Banking Board of the State of New York as to the rate of interest which may be paid by banks and trust companies in that State after January 1, 1935.

"You state that you understand that the Chief National Bank Examiner in your district is writing to the Comptroller of the Currency suggesting to him that the Comptroller's Office communicate with national banks in the State of New York with regard to this matter. The Federal Reserve Board has received a communication from the Comptroller of the Currency stating that he has advised that this is a matter for consideration of the Federal Reserve Board.

"As you know, section 24 of the Federal Reserve Act provides that the rate of interest which a national banking association may pay upon time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located.

"The regulation of the Banking Board of the State of New York, which is predicated on the authority contained in section 10-b of the Banking Law of the State and Chapter 41 of the Laws of 1933 as amended by Chapter 11 of the Laws of 1934, provides that no bank, trust company or private banker, subject to the provisions of the Banking Law, shall, after January 1, 1935, pay interest on any time, thrift or savings deposit at a rate in excess of two and one-half per centum per annum and..."
"that no savings bank, except upon obtaining special authority from the Superintendent, shall pay dividends on any deposit therewith in excess of two and one-half per centum per annum. The regulation, however, does not prevent a bank, trust company or private banker from paying interest at such rate as may be provided for in any 'contract now existing' with a depositor, but after the termination of such a contract, which must be brought about at the earliest possible date under the terms thereof, interest must be paid in accordance with the regulation. It is understood that in a case involving another order of the Banking Board of New York issued under authority of the provisions of Chapter 41 of the Laws of 1933 as amended, this statute has been upheld by the Court of Appeals of New York as constitutional.

"In the circumstances, it is the view of the Federal Reserve Board that the maximum rate of interest, two and one-half per centum per annum, which has been prescribed by the regulation of the Banking Board will, after January 1, 1935, be the 'maximum rate authorized by law' to be paid upon time or savings deposits by State banks or trust companies organized under the laws of New York, within the meaning of section 24 of the Federal Reserve Act. Accordingly, the rate of interest, accruing after that date and during the period such regulation is legally in effect, which a national bank or other member bank located in that State may lawfully pay on time or savings deposits, may not exceed the rate of two and one-half per centum per annum prescribed in such regulation of the Banking Board. It is believed desirable that notice to this effect should be given by you to all member banks which are located in the State of New York calling attention to the applicable provisions of section 24 of the Federal Reserve Act and to the provisions of subsection (c)(3) of Section III and subsection (c)(3) of Section V of the Board's Regulation Q, as well as to the provisions of the regulation of the Banking Board on this subject. The regulation of the Banking Board does not prevent a State bank or trust company from paying interest at such rate as may be provided for in any contract 'now existing', and, accordingly, the Federal Reserve Board will not object to the payment of interest by a national bank at a rate greater than two and one-half per centum per annum in accordance with the terms of, and until the termination of, any contract existing on the date on which such bank receives notice from you of the limitation on the rate of interest which may be paid after January 1, 1935, provided such rate is otherwise in conformity with the provisions of Regulation Q."

The view expressed above by the Federal Reserve Board with regard to the maximum rate of interest which may lawfully be paid by a national bank or other member bank located in the
"State of New York on time or savings deposits after January 1, 1935, is predicated upon the Board's understanding that the Superintendent has not in any case, pursuant to the authority conferred upon him by the regulation of the Banking Board, permitted a savings bank to pay a dividend rate in excess of two and one-half per cent per annum. If the Superintendent should permit one or more savings banks to pay dividends at a rate in excess of two and one-half per cent per annum, a different question will be presented and it will be necessary in that event for the Federal Reserve Board to give further consideration to the maximum rate of interest which may lawfully be paid by a national bank or other member bank in New York on time or savings deposits. It will be appreciated if you will communicate with the State Banking Department of New York and request that you be advised of any case in which the Superintendent permits a savings bank to pay dividends at a rate higher than two and one-half per cent per annum, and that you advise the Board of any such case.

"It is observed that the regulation of the Banking Board is predicated upon the authority given both by section 10-b of the Banking Law of New York and by Chapter 41 of the Laws of 1933 as amended. The authority contained in the provisions of Chapter 41 of the Laws of 1933, as amended, will, by its terms, expire on March 1, 1935, or on such earlier date as the Legislature or Governor may designate. The question arises, therefore, whether the regulation of the Banking Board will be duly authorized by law and legally effective after the expiration of the authority conferred by Chapter 41 of the Laws of 1933 as amended. Inasmuch as this depends upon a question of State law, the Federal Reserve Board suggests that you give consideration to the advisability of obtaining, if possible, an expression by the Attorney General of the State of New York with reference to this question through whatever channels you may consider appropriate. It will be appreciated if you will submit to the Board an opinion of your counsel with regard to this matter, together with an opinion of the Attorney General, if it is practicable to obtain it, a sufficient time prior to the expiration of the authority conferred by Chapter 41 to enable the Board to give due consideration to the maximum rate of interest which national banks in New York may pay on time and savings deposits after the expiration of such authority."

Approved.

Letter to Governor Schaller of the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your letter of November 5, 1934.
in reply to the Board's letter of October 31, 1934, in which reference was made to the application of Parret & Company, Normal, Illinois, for an industrial loan, and in which it was stated as the feeling of the Federal Reserve Board that where an application for an industrial loan is refused by a Federal reserve bank the applicant ordinarily should be advised of the reasons making such refusal necessary.

Your letter states that your Executive Committee has reached the conclusion that it is desirable not to go into specific reasons for declining applications due to the fact that in some cases they reflect on the ability and integrity of the applicants. You also state that it would appear that your practice in this regard is not out of line with the practice of commercial banks.

The Board feels that a special responsibility rests upon the Federal reserve banks in the making of industrial advances and that it is highly important that, in all cases where an application for an industrial loan is not approved, it be made clear to the applicant that the bank's action is not the result of an arbitrary decision of the Industrial Advisory Committee not to recommend approval, or of the Federal reserve bank not to grant the loan, but is in accordance with the requirements of the law as to the purpose of the advance or that the loans be made on a reasonable and sound basis.

In certain instances which have come to the attention of the Board, the applicants have indicated a feeling that the bank's decision not to make the loan was in contravention of the purposes sought to be accomplished by section 13b of the Federal Reserve Act and it is believed that such a misunderstanding can be avoided, at least in a number of cases, only by a full explanation of the reasons for the refusal.

The Board suggests, therefore, that whenever an application is denied for the reason that the business is not an established industrial or commercial concern within the meaning of the law, or the proceeds of the loan are not to be used for the purpose of furnishing working capital, or the application is ineligible for other reasons, you explain fully in your letter to the applicant why the Federal reserve bank is without authority to make the loan. Also where the loan cannot be made because of the credit standing of the applicant, future business prospects, unsatisfactory management, insufficient security, etc., it is suggested that your letter contain a frank and full explanation of the circumstances which impel the decision that the loan cannot be made on a reasonable and sound basis. When more than one reason exists for the refusal, all important reasons should be fully explained. The Board feels that such a procedure will be productive of the most satisfactory results as it will leave no possibility of mis-
understanding on the part of the applicant as to the reasons for the bank's action and will make clear that the Industrial Advisory Committee and the bank are proceeding in accordance with the intent of the law.

"If cases do arise where it is felt that the reasons for the refusal of the application should not be put in a letter to the applicant, it is suggested that, wherever practicable, you arrange to have one of your field men call on the applicant and explain to him in a frank and friendly manner the reasons for the bank's action, or, if more convenient, that the applicant be advised that if he will call at the bank the officers in charge of the Industrial Loan Department will be glad to go fully into the reasons why the application was not approved.

"Of course, isolated instances may arise where it would not be advisable to state, either in a letter or an interview, one or more of the reasons for not granting the application, but in such a case the other important reasons, if any, should be fully explained and it should be made clear in any event that the bank's decision is not an arbitrary one."

Approved.

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

"Reference is made to the Clayton Act permit granted by the Board on October 22, 1934, to Mr. James W. Berryman, Spearman, Texas, to serve at the same time as director of The Stockgrowers State Bank, Ashland, Kansas, and as an officer of The First National Bank of Spearman, Spearman, Texas, and to your letter of November 8, 1934, inclosing a letter dated November 7, 1934, from Mr. Berryman.

"Mr. Berryman advises that subsequent to the receipt of his Clayton Act permit he was elected a director of The First National Bank of Spearman, Texas, and that he is serving no firms or corporations other than the banks involved. It appears, therefore, that Mr. Berryman's permit should include his services also as a director of The First National Bank of Spearman; and, in accordance with your recommendation, the Board has approved the application.

"There are inclosed the original and copies of the permit granted to Mr. Berryman covering his present services as director of The Stockgrowers State Bank, Ashland, Kansas, and as director and officer of The First National Bank of Spearman, Spearman, Texas, for transmittal by you to the applicant and the banks involved and a copy for your files."

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

Mr. O. P. Marshall, for permission to serve at the same time as a director and officer of The First National Bank of Commerce, Commerce, Texas, and as a director of the Sulphur Springs State Bank, Sulphur Springs, Texas.

Approved.

Thereupon the meeting adjourned.

Approved:

[Signature]

Secretary.

[Signature]

Governor.