A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Saturday, December 1, 1934, at 11:00 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The Committee acted upon the following matters:

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

"In accordance with the recommendation contained in your letter of November 10, 1934, the Federal Reserve Board approves the appointment of Mr. W. Edgar Crosby as a Special Assistant to the Federal Reserve Agent at the Federal Reserve Bank of New York, with salary at the rate of $7,000 per annum.

"Your telegram of November 21 states that Mr. Crosby will not be, or have the powers of, an 'assistant Federal reserve agent', will not have power to act in the name and stead of the Federal reserve agent during his absence or disability, and will not have custody or control of, or access to, any currency or collateral in the custody of the agent or the joint custody of the agent and the Federal Reserve Bank of New York. In view of these circumstances, Mr. Crosby will not be regarded by the Board as an Assistant to the Federal Reserve Agent within the provisions of section 4 of the Federal Reserve Act, and the Board will not require that he execute the bond required of assistant Federal reserve agents.

"Please advise the effective date of Mr. Crosby's employment."

Approved.

Letter dated November 30, 1934, approved by two members of the Board, to Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"The Federal Reserve Board notes from your letter of
November 21, 1934, that the board of directors of your bank, at its meeting on that date, appointed Mr. A. H. Eckles, President of the Planters Bank and Trust Company, Hopkinsville, Kentucky, as a director of the Louisville branch of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending December 31, 1934, to succeed Mr. W. C. Montgomery, deceased.

The Board also notes that your directors appointed Mr. Walter V. Bulleit, New Albany, Indiana, as a director of your Louisville branch for the unexpired portion of the term ending December 31, 1936, to succeed Mr. W. A. Brown, resigned.

"It is assumed that consideration has been given to the applicability of the provisions of the Clayton Act to Messrs. Eckles and Bulleit."

Approved.

Telegram to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, stating that, subject to the conditions prescribed in the telegram, the Board approves the application of the "First State Bank of St. Joseph", St. Joseph, Missouri, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved.

Letter dated November 30, 1934, approved by two members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of November 21, 1934, transmitting the request of the 'Farmers Bank and Trust Company of Lancaster', Lancaster, Pennsylvania, for an extension of time within which the three remaining issues of stock acquired from the Farmers Trust Company of Lancaster must be disposed of in accordance with condition of membership numbered 24 and recommending that the bank be granted an extension of six months from December 18, 1934, within which to comply with the condition.

"It has been noted that of the 27 issues of stock having a market value of approximately $175,000 reflected in the pro
"Forma statement as of January 20, 1934, the Farmers Bank and Trust Company actually acquired only 5 issues at a value of approximately $78,000, and that since its organization the Farmers Bank and Trust Company has disposed of 2 of the issues which were carried at a value of approximately $13,000, and that the bank has been unable to dispose of the three remaining issues without a loss.

"In view of the circumstances, and in accordance with your recommendation, the Board extends until June 18, 1935, the time within which the remaining stocks must be disposed of in accordance with provisions of condition of membership numbered 24. Please advise the bank accordingly. In advising the bank of the Board's action it should be emphasized that notwithstanding the extension granted, the stocks should be disposed of at the first favorable opportunity."

Approved.

Letter dated November 30, 1934, approved by two members of the Board, 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 17, 1934, from which it is noted that the next annual shareholders' meeting of 'The Bank of Rainelle', Rainelle, West Virginia, will be held on the fourth Wednesday in May, 1935, and that, since there are no other matters which will necessitate the holding of a shareholders' meeting prior to that time, it will not be necessary to give further consideration to the voting permit application of the bank's holding company affiliate, the Meadow River Lumber Company, at this time.

"It is noted also that you expect to receive certified copies of the holding company's annual audit report, as of December 31, 1934, about the middle of March, 1935, and that a copy of this report, as well as properly executed copies of the 'Request for Amendment' of Exhibit A, will be forwarded to the Board as soon as received, together with your Executive Committee's recommendation in regard to the granting of a general voting permit to the holding company. In the circumstances, the Board will take no further action in connection with the voting permit application of the Meadow River Lumber Company at this time.

"As you know, the time within which The Bank of Rainelle might comply with membership condition numbered 18, as extended by the Board's letter X-7928, expired on December 1, 1934, and in view of all the circumstances the Board extends
"the time to June 1, 1935, within which The Bank of Rainelle may comply with the provisions of such condition. It is requested that you advise the bank accordingly."

Approved.

Letter dated November 30, 1934, approved by three members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to the report of examination of 'The Fidelity Trust Company', Baltimore, Maryland, as of September 24, 1934, which reflects estimated losses of $57,175 in loans, net depreciation of $48,900 in securities, and a liability not shown on the books of $149,500 for assessment on the bank's holdings of stock of the Title Guaranty and Trust Company. The report also indicates that on September 6, 1934, a dividend of $50,000 was declared payable on September 29, 1934, making the third quarterly dividend of 5 per cent paid during the year.

"Following the examination of the trust company as of February 13, 1934, the dividend policy was the subject of discussion between the Reserve Bank and the trust company. In a letter dated March 9, 1934, to the trust company, Mr. Fry, Assistant Federal Reserve Agent, said --

'Your bank has been a money-maker and has paid large dividends. In our opinion, you are not justified in paying any further dividends until you have provided for all of the losses in your bank and have an ample capital in proportion to your deposit liabilities,' and it is understood that in April an agreement was reached that the trust company would pay no further dividends without the approval of the Federal Reserve Bank.

"According to Mr. Fry's letter to the Board dated October 8, 1934, the executive committee of the Reserve Bank interposed no objection to the payment of a $50,000 dividend in June in view of the fact that an appreciation of $230,000 in securities as reported by the trust company was sufficient to cover the estimated losses as shown in the report of examination as of February 13 which had not been charged off. Instead of an appreciation in securities, however, the report of examination as of September 24, 1934, reflected a depreciation of $48,900, and the Board feels that further payment of dividends is unwarranted until a reserve for the full amount of the liability on account of the stock of the Title Guaranty and Trust Company has been set aside and provision has been
made for the other estimated losses.

"If you have not already done so, it is suggested that you discuss this matter with the management of the trust company, and it will be appreciated if you will advise the Board as to your views in the matter and as to the action which the trust company proposes to take regarding the payment of further dividends, the elimination of estimated losses, and the provision of adequate reserves."

Approved.

Letter dated November 30, 1934, approved by two members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to Mr. Young's letter of November 17, 1934, in regard to the contemplated assumption by the 'Peoples Bank of Bloomington', Bloomington, Illinois, a member bank, of the deposit liabilities of the McLean County Bank, a nonmember bank, also located in Bloomington, Illinois. In this connection, it is understood that the Peoples Bank has stated definitely that it will not proceed with the proposed transaction if an increase in its capital stock and/or surplus is required because of the transaction.

"Condition of membership numbered 18 accepted by the bank at the time of its admission to membership on July 15, 1933, provides that:

'Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, will be adequate in relation to its total deposit liabilities, having due regard to the principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities and, in some circumstances, should be more than one-tenth of such amount.

"It has been noted that the deposits of the Peoples Bank have increased from $3,816,000 on April 25, 1933, the date of the examination made in connection with the application for membership, to $5,517,000 on October 15, 1934, the date of the most recent examination, at which time the bank had capital and surplus of $500,000 and undivided profits of $39,800. In addition, the report of examination as of October 15, 1934, reflected an appreciation of $12,500 in securities and an estimated value of approximately $29,000 in certain charged-off assets.

"The Board has given consideration to the excellent condition
"of the Peoples Bank as reflected in the report of examination as of October 15, 1934, with no assets classified as estimated losses or doubtful, to the high degree of liquidity of the bank, and to the favorable comments of the examiner and Mr. Young regarding the management.

"In view of the circumstances and the banking situation in Bloomington, the Board would not require at this time an increase in capital or surplus of the Peoples Bank in the event that the transaction is consummated. The Board feels, however, that if the bank's deposits continue to increase or even remain at approximately the present level, its capital and/or surplus should be increased within a reasonable length of time to an amount which would provide a ratio to deposits of at least one to ten, and in not requiring an increase in capital accounts at this time the Board does not waive or modify in any respect the condition of membership numbered 18.

"It is understood that, if the transaction is consummated, your examiner will be present to approve the assets taken over, and the Board would like to receive full information as to the nature and quality of the assets acquired, together with advice as to whether in your opinion the absorption has resulted in any material change in the character of the assets held by the member bank."

Approved.

Letter dated November 30, 1934, approved by three members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'City National Bank & Trust Company of Danbury', Danbury, Connecticut, from $250,000 to $125,000, pursuant to a plan which provides that the released capital shall be used to eliminate a corresponding amount of the least desirable assets in the bank, including all estimated losses, and that all lower grade securities depreciation shall also be charged off, all as set forth in your memorandum of November 15, 1934."

Approved.

Letter dated November 30, 1934, approved by two members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the
"Reference is made to your letter dated October 4, 1934, regarding the question whether 'Corvallis First National Corporation', Corvallis, Oregon, is a holding company affiliate of 'First National Bank of Corvallis', Corvallis, Oregon.

"From the facts stated in your letter, the Board is unable to determine definitely whether or not Corvallis First National Corporation is a holding company affiliate of First National Bank of Corvallis. However, in view of the unusual circumstances involved in this case, it is suggested that examination of such holding company and its subsidiary and affiliated organizations for the purpose of making a recommendation in connection with the issuance of a general voting permit be deferred until after the next annual meeting of the bank, at which time the status of the corporation as a holding company affiliate will probably be clearly established.

"In order to remove any question as to the authority of the corporation to vote its shares at the next annual meeting of shareholders of the bank, the Board will consider the issuance of a limited voting permit to the corporation for the purposes stated after the code word ANCILCO on page 7 of the Board's letter to all Federal Reserve Agents dated November 10, 1934 (X-9018). If the corporation desires a limited voting permit authorizing it to vote the shares which it owns or controls at the next annual meeting of the bank for any purpose other than those referred to above, please advise the Board of such fact."

Approved.

Letter dated November 30, 1934, approved by two members of the Board, to Mr. E. K. Van Horne, New York, New York, reading as follows:

"This is in reply to your letter of November 3, 1934 in which you refer to section 6 of the Regulation T and to the Board's ruling No. 20 interpreting Regulation T. You set forth the facts pertinent to your inquiry as follows:

Our customer advises us that he has maturing on November 24, 1934 $10,000 principal amount of a security of a company which has arranged for the cash necessary to meet this maturity. He is desirous of arranging at this time for the purchase of certain securities which we have suggested to him as being attractive on the basis of their present market prices and he is willing to purchase these
Securities provided delivery and payment can be delayed until November 27, 1934, at which time proceeds of the maturing security will be available to him. We, as principal, are agreeable to selling these securities to him at the present market prices for delivery and payment as he suggests.

Your letter does not indicate the date of the contract between you and your customer, but, assuming that the transaction is a 'bona fide cash transaction' within the meaning of section 6 of Regulation T, there will be no violation of the regulation if you receive full payment for the securities sold at or before the time that title to such securities passes from you to your customer or within seven days thereafter. In such circumstances, if credit is extended, it is not maintained for a period longer than that permitted by the provisions of section 6 of the Regulation in the case of credit which is extended as an incident to a bona fide cash transaction.

In order to avoid the duplication of requests for rulings under Regulation T, the Board issues rulings and receives inquiries regarding the regulation through the Federal Reserve Agents at the Federal Reserve banks. It is suggested, therefore, that any further inquiries you may have on this subject be submitted, together with a concise statement of material facts, to the Federal Reserve Agent at the Federal Reserve Bank of New York.

Approved.

Letter to Honorable H. D. Hockersmith, Mayor of the City of Vernon, Texas, reading as follows:

"This refers to your letter of November 13, 1934, addressed to the Governor of the Federal Reserve Board, regarding the question whether The Herring National Bank of Vernon, Texas, may lawfully pay interest on deposits of funds of the City of Vernon which, it is understood, are payable on demand.

Section 19 of the Federal Reserve Act prohibits the payment of interest by member banks of the Federal Reserve System on deposits which are payable on demand, but excepts from such prohibition deposits of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, 'with respect to which payment of interest is required under State law'. The question presented, therefore, is whether the payment of interest upon the funds in question is 'required under State law' within the meaning of section 19 of the Federal Reserve Act; and since the matter is one which
"is governed by the Federal statute and relates to payment of interest by member banks of the Federal Reserve System, the Federal Reserve Board expressed its views with regard to the question upon receiving a request some months ago for a ruling in the matter.

"Under Article 2559 of Vernon's Annotated Texas Statutes the governing body of every city, town and village in the State of Texas is authorized to receive sealed proposals for the custody of city funds from any bank or banker that may desire to be selected as a depository, and it is provided therein that any bank or banker desiring to bid shall deliver to the City Secretary within a certain period after notice that bids will be received a sealed proposal stating the rate per cent upon daily balances that such bidder 'offers' to pay to the city, town or village for the privilege of being made depository of the funds. Article 2560 of such statutes provides that the governing body shall select as a depository of such funds the bank or banker offering to pay the largest amount for such privilege, but the governing body is specifically given the right to reject any and all bids and to readvertise for new proposals. It does not appear, however, that the governing body of a city is required to deposit its funds in accordance with such procedure, and circumstances might arise in which it would be permissible for the governing body to deposit such funds in banking institutions without interest. While Article 2559 of the Texas Statutes appears to authorize a city to receive proposals from banks stating the rate which will be paid on daily balances of city funds, it appears that the procedure prescribed therein is not mandatory as it is understood that it has not been uniformly followed by all cities in the State of Texas.

"In view of the foregoing and of the general rule that an exception to a statutory provision should be strictly construed, the Federal Reserve Board, in response to the request which it received some months ago, expressed the opinion that the payment of interest with respect to deposits of funds of the City of Vernon made in accordance with the procedure set forth in Articles 2559 and 2560 of Vernon's Annotated Texas Statutes is not 'required under State law' within the meaning of section 19 of the Federal Reserve Act and that, accordingly, a member bank may not lawfully pay interest on such deposits which are payable on demand."

Approved.
Thereupon the meeting adjourned.

[Signature]
Secretary.

Approved:

[Signature]
Governor.