

A meeting of the Federal Reserve Board was held in Washington on Monday, December 10, 1934, at 4:00 p. m.

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

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

The minutes of the meetings of the Federal Reserve Board held on October 18, 19, 22, 23, 25, 26, 29, and 30 (two meetings), and November 1, 14, 15, 16, and 17, 1934, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on October 20 and 31, and November 2, 3, 5, 6, 8, 10, and 13, 1934, were approved and the actions recorded therein were ratified unanimously.

The Board then acted upon the following matters:

Memorandum dated December 5, 1934, from Mr. Wyatt, General Counsel, recommending the appointment of Mr. John C. Baumann as an assistant counsel in the legal division, with salary at the rate of \$5,000 per annum, effective as of the date upon which he enters upon the performance of his duties after passing a satisfactory physical examination.

Approved.

Memorandum dated December 7, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, transmitting the resignation of Mrs. Helen Hassell as a stenographer in the division, effective as of the close of business on December 11, 1934.

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Accepted.

Letter to "The National Bank of Lumberton", Lumberton, North Carolina, 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 North Carolina, 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."

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 Merchants National Bank of Whitehall', Whitehall, New York, from \$100,000 to \$50,000, 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, all as set forth in your memorandum of November 28, 1934."

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 Lynchburg National Bank and Trust Company', Lynchburg, Virginia, from \$1,000,000 to \$600,000, pursuant to a plan which provides that the released common capital shall be distributed to the stockholders in the form of a dividend, all as set forth

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"in your memorandum of December 1, 1934."

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 First National Bank of Whitefish', Whitefish, Montana, from \$25,000 to \$10,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$40,000 of preferred stock to the Reconstruction Finance Corporation and/or others, and that the released capital, together with a portion of the bank's surplus and undivided profits, shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of November 27, 1934.

"Although your memorandum does not state the total amount of charge offs to be made, it is assumed that you will require at least the elimination of all estimated losses and lower grade securities depreciation as shown in the report of examination as of July 28, 1934."

Approved.

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

"Receipt is acknowledged of your memorandum of November 30, 1934, with reference to the proposed reduction in common capital stock of 'The Coleridge National Bank', Coleridge, Nebraska, which was approved by the Board on June 11, 1934, pursuant to a plan which provided among other things for a contribution of \$7,500 by local interests.

"You advise that the Reconstruction Finance Corporation has agreed to purchase \$50,000 of preferred stock of the subject bank, eliminating the previous condition that \$7,500 of unacceptable assets be purchased by local interests for cash.

"In accordance with your recommendation, the Board amends its previous approval by eliminating the requirement for a \$7,500 contribution with the understanding that the other provisions of the original plan remain unchanged."

Approved.

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

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"This refers to your letter dated November 5, 1934, addressed to Mr. Paulger, regarding the filing of an application by the Palmer Investment Company, Chicago, Illinois, for a voting permit authorizing it to vote the stock which it owns or controls of The Palmer National Bank and Trust Company, Sarasota, Florida.

"From your letter it appears that the Palmer Investment Company owns 819 of the 1,000 outstanding shares of the capital stock of The Palmer National Bank and Trust Company. At the January, 1934, stockholders' meeting of the bank, 975 shares were represented of which only 156 shares were owned by stockholders other than the investment company. The entire stock represented at the meeting was voted for the directors now in office, although the investment company did not have a permit from the Federal Reserve Board to vote the stock which it owns. In response to an inquiry from the bank, Mr. Awalt, Deputy Comptroller of the Currency, informed the bank that inasmuch as the present board of directors had each received all of the votes that were legally cast, and inasmuch as such directors had each received the vote of all of the stockholders present or represented who were qualified to vote, the election of directors was legal and it would be unnecessary to hold another election.

"You stated in your letter that you have received a letter dated November 2, 1934, from The Palmer National Bank and Trust Company in which the bank stated that it construed Mr. Awalt's letter and the Federal Reserve Board's Regulation P as meaning that a holding company affiliate is not required to file an application for a voting permit but must do so only in the event it wishes to vote the stock which it owns or controls in the subsidiary member bank. In such letter, The Palmer National Bank and Trust Company stated that it understood that it might elect not to apply for a voting permit and leave the election of directors and other business coming before the shareholders to the vote of the remaining qualified shares owned by others than the holding company affiliate, and asked to be advised whether or not this would meet with the approval of the Federal Reserve Board. In your letter, you state that you are uncertain as to the extent to which you should go in insisting that a holding company affiliate of a national bank apply for a permit to vote the stock which it owns or controls of such bank in cases where the holding company affiliate expresses a disinclination so to do.

"Although nothing contained in section 5144 of the Revised Statutes of the United States as amended by section 19 of the Banking Act of 1933, requires a holding company affiliate to file an application for a permit authorizing it to vote the

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"stock which it owns or controls of either a national or State member bank, the Federal Reserve Board considers it an undesirable practice for a bank to conduct elections of directors and to transact other business at shareholders' meetings upon the vote of a small minority of the outstanding shares. It is understood that the office of the Comptroller of the Currency concurs in this view. In this connection, attention is called to the fact that section 5144 of the Revised Statutes of the United States provides that shares of a national bank controlled by any holding company affiliate of such a bank 'shall not be voted unless such holding company affiliate shall have first obtained a voting permit', and in order to avoid a violation of this prohibition in the statute the shares of a national bank held by a holding company affiliate should not be voted until such holding company has obtained a voting permit from the Board.

"An additional consideration is that it is impossible to determine when a question will arise which will require favorable action by the holders of a certain percentage of the member bank's outstanding shares, such as the question of the issuance of preferred stock or the reduction of capital stock. Such questions are often emergency matters requiring immediate action, and if, in any such case, its holding company affiliate, with full knowledge of the law, has previously failed to file an application for a voting permit and to comply with the usual requirements prescribed by the Board as conditions to the issuance of a voting permit, the delay necessarily involved in obtaining a voting permit from the Board may be a matter of embarrassment to the subsidiary member bank.

"Since receiving your letter dated November 5, 1934, the Board has received a telegram dated November 13, 1934, from Mr. C. S. Young, Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, stating that he had been informed by the attorney for Mr. Palmer that the Palmer Investment Company would probably file an application for a voting permit within a few days. If you have not received such application, it will be appreciated if you will advise the holding company affiliate and the bank of the Board's attitude concerning the matter."

Approved.

Memorandum dated December 5, 1934, from Mr. Smead, Chief of the Division of Bank Operations, stating that since October 17, 1934, the Board's weekly statement of condition of reporting member banks in leading cities has shown a number of new items, including "Acceptances and commercial paper" held by such banks; that amounts reported against

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that caption represent acceptances and commercial paper bought in the open market only; that if a bank holds any of its own acceptances they are included in "Other loans"; and that attempts on the part of the American Acceptance Council and the principal accepting banks to check information in their possession relating to the volume of acceptances outstanding, etc., against the item "Acceptances and commercial paper" as shown in the Board's weekly statement have resulted in the finding of considerable differences, largely due to the fact that a bank's own acceptances are included in "Other loans" and not in "Acceptances and commercial paper". The memorandum stated also that, in order to avoid such misunderstandings of the Board's reports, it is recommended that, beginning with the statement for December 5, 1934, the caption "Acceptances and commercial paper" be changed to read "Acceptances and commercial paper bought".

Approved.

Telegram dated December 8, 1934, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to our telegrams regarding order of Banking Commission of State of Wisconsin prescribing maximum rate of interest of two and one-half per cent which may be paid by State banks, mutual savings banks or trust companies subject to the Wisconsin banking statutes on time or savings deposits after January 1, 1935. In view of provisions of section 24 of Federal Reserve Act and of the order of the Banking Commission, it is the opinion of the Federal Reserve Board that the maximum rate of interest which has been prescribed by the order of the Banking Commission 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

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"companies organized under the laws of Wisconsin 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 order 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 cent per annum prescribed in such order of the Banking Commission. It is understood that you have already brought the order of the Banking Commission to the attention of the Wisconsin member banks for their information and guidance, but it is believed desirable that notice of the Board's view with regard to the matter be given by you to all member banks in your district located in Wisconsin. The order of the Commission does not prevent a State bank 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 payment of interest by a national bank in Wisconsin at a rate greater than two and one-half per cent 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 view of the Federal Reserve Board in this matter, provided such rate is otherwise in conformity with the provisions of Regulation Q and the contract is terminated as soon as possible under the terms thereof. The view expressed above is predicated upon the Board's understanding that the Commission has not in any case permitted a mutual savings bank upon application as provided in the order to pay a dividend rate in excess of two and one-half per cent per annum. If the Commission should permit one or more mutual savings banks to pay dividends at a higher rate 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 member banks in Wisconsin on time or savings deposits. Please request Wisconsin Banking Department to advise you of any case in which a mutual savings bank may be permitted to pay higher rate of dividends and please notify the Board of any such case."

Approved, together with a similar telegram, also dated December 8, 1934, and approved by five members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis.

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

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"The Board has reconsidered the applications of Mr. Thomas B. Finan, Cumberland, Maryland, for permission under the provisions of the Clayton Act to serve as director of The First National Bank of Cumberland and as officer of the Liberty Trust Company, both of Cumberland, Maryland; Mr. Hugh A. McMullen, Cumberland, Maryland, to serve as director of The First National Bank of Cumberland, Chairman of Executive Committee of the Liberty Trust Company, both of Cumberland, Maryland, and as director of the Fidelity Savings Bank, Frostburg, Maryland; Mr. H. A. Pitzer and Mr. Henry Shriver, both of Cumberland, Maryland, to serve as director and/or officer of The First National Bank of Cumberland, Cumberland, Maryland, and The First National Bank of Mount Savage, Mount Savage, Maryland. Upon the basis of the information before it, including the additional facts and arguments submitted with Assistant Federal Reserve Agent Fry's letters of November 7 and November 8, 1934, the Board feels that the issuance of unlimited permits to the applicants would be incompatible with the public interest as set forth in its letter of October 20, 1934, to you.

"However, it appears that a plan for the recapitalization of The First National Bank of Cumberland, Cumberland, Maryland, is in process, that pursuant thereto, the Reconstruction Finance Corporation has granted the bank a commitment to purchase \$200,000 of preferred stock, that such commitment, unless subsequently extended, expires on December 31, 1934, that with prompt action on the part of officers, directors and shareholders the consummation of the proposed recapitalization program is possible within the short time remaining before December 31, 1934, that The First National Bank of Cumberland is in need of such strengthening and that, without the issuance of Clayton Act permits to the above named individuals it will be difficult to complete the necessary formalities in connection with the proposed recapitalization. In view of these facts, in order to facilitate the proposed recapitalization program of The First National Bank of Cumberland and in accordance with the recommendation of Assistant Federal Reserve Agent Fry in his letter of December 4, 1934, the Board has granted Clayton Act permits to Messrs. Finan, McMullen, Pitzer and Shriver effective, however, only for the period ending January 8, 1935. There are inclosed the originals and copies of the permits for transmittal by you to the applicants and the banks involved and copies for your files. When the permits are sent to the applicants you are requested to call their attention to the limited status thereof and advise them that the permits have been granted with the expectation that their services will be brought into conformity with the provisions of the Clayton Act at the expiration of the permits on January 8, 1935.

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"Please keep the Board advised as to the progress made in the recapitalization program of The First National Bank of Cumberland; and upon the expiration of the Clayton Act permits on January 8, 1935, please advise the Board promptly as to the steps taken by Messrs. Finan, McMullen, Pitzer and Shriver to bring their relationships into conformity with the provisions of the Clayton Act."

Approved.

The Clayton Act permits referred to in the above letter were as follows:

Mr. Thomas B. Finan, for permission to serve at the same time as a director of The First National Bank of Cumberland, Cumberland, Maryland, and as an officer of the Liberty Trust Company, Cumberland, Maryland, for the period ending January 8, 1935.

Mr. Hugh A. McMullen, for permission to serve at the same time as a director of The First National Bank of Cumberland, Cumberland, Maryland, as chairman of the executive committee of the Liberty Trust Company, Cumberland, Maryland, and as a director of the Fidelity Savings Bank, Frostburg, Maryland, for the period ending January 8, 1935.

Mr. H. A. Pitzer, for permission to serve at the same time as a director and officer of The First National Bank of Cumberland, Cumberland, Maryland, and as a director and officer of The First National Bank of Mount Savage, Mount Savage, Maryland, for the period ending January 8, 1935.

Mr. Henry Shriver, for permission to serve at the same time as a director and officer of The First National Bank of Cumberland, Cumberland, Maryland, and as a director of The First National Bank of Mount Savage, Mount Savage, Maryland, for the period ending January 8, 1935.

Letters dated December 8, 1934, approved by five members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. B. S. Boyd, for permission to serve at the same time as a director of The Farmers National Bank of Deposit, Deposit, New York, and as a director of The First National Bank and Trust Company of Walton, Walton, New York.

Mr. J. E. Cassidy, for permission to serve at the same time as a director of The First National Bank and Trust Company of Walton, Walton, New York, and as a director of The First National Bank of Downsville, Downsville, New York.

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Mr. Francis S. Clarke, for permission to serve at the same time as an officer of The First National Bank and Trust Company of Walton, Walton, New York, and as an officer of The First National Bank in Sidney, Sidney, New York.

Mr. E. B. Guild, for permission to serve at the same time as a director and officer of The First National Bank in Sidney, Sidney, New York, and as a director and officer of The First National Bank and Trust Company of Walton, Walton, New York.

Mr. William J. Merwin, for permission to serve at the same time as a director and officer of The First National Bank of Hancock, Hancock, New York, as a director of The First National Bank in Sidney, Sidney, New York, and as a director of The First National Bank and Trust Company of Walton, Walton, New York.

Mr. Kenneth A. Sprague, for permission to serve at the same time as a director of The First National Bank & Trust Company of Roscoe, Roscoe, New York, and as a director of The Livingston Manor National Bank, Livingston Manor, New York.

Mr. Otis A. Thompson, for permission to serve at the same time as a director and officer of The National Bank and Trust Company of Norwich, Norwich, New York, and as director of The First National Bank in Sidney, Sidney, New York.

Mr. George V. Treyz, for permission to serve at the same time as a director of The First National Bank & Trust Company of Roscoe, Roscoe, New York, and as a director of The Livingston Manor National Bank, Livingston Manor, New York.

Mr. J. H. Allison, for permission to serve at the same time as a director and officer of The First National Bank of Cochran, Cochran, Pennsylvania, as a director of The First National Bank of Stoneboro, Stoneboro, Pennsylvania, and as a director of the Mercer County State Bank, Sandy Lake, Pennsylvania.

Mr. R. R. Down, for permission to serve at the same time as a director and officer of the First National Bank in Sharon, Sharon, Pennsylvania, and as a director of the Mercer County State Bank, Sandy Lake, Pennsylvania.

Approved.

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Thereupon the meeting adjourned.

Robert Morrell
Secretary.

Approved:

W. S. C. C. C.
Governor.