

A meeting of the Federal Reserve Board was held in Washington on Monday, December 17, 1934, at 3:00 p. m.

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

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

The Board acted upon the following matters:

Memorandum dated December 13, 1934, from Mr. Wyatt, General Counsel, transmitting and recommending acceptance of the resignation of Mr. H. Lee Boatwright, Jr., as an assistant counsel in the legal division, effective at the close of business on December 31, 1934.

Approved.

Telegram dated December 15, 1934, approved by four members of the Board, to Governor McKinney of the Federal Reserve Bank of Dallas, reading as follows:

"Referring your December 12 telegram, Board's letter X-9040 authorizes repayment of all expenses and transportation incurred for the purpose of making inspections and investigations as well as for attendance at meetings of the Industrial Advisory Committee."

Approved.

Letter dated December 15, 1934, approved by four members of the Board, to the board of directors of the "First Trust Company of Philadelphia", Philadelphia, Pennsylvania, stating that the Board

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approves the institution's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Philadelphia, subject to the conditions prescribed in the letter, and to compliance by "The First National Bank of Philadelphia", Philadelphia, Pennsylvania, with the conditions prescribed by the Board in connection with the issuance of a general voting permit to the national bank.

Approved, together with a letter, also dated December 15, 1934, and approved by four members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"The Federal Reserve Board has authorized the issuance to 'The First National Bank of Philadelphia', Philadelphia, Pennsylvania of a general voting permit under the provisions of section 5144 of the Revised Statutes of the United States entitling Livingston E. Jones, Edward M. Malpass and Carl H. Chaffee, or either one of them as Trustees under an agreement dated October 7, 1925, to vote, for all purposes, the stock which The First National Bank of Philadelphia owns or controls of the 'First Trust Company of Philadelphia', Philadelphia, Pennsylvania, subject to the conditions prescribed in the inclosed letter, which you are requested to forward to The First National Bank of Philadelphia, with any additional comments you may deem advisable in view of the circumstances involved. A copy of such letter is also inclosed for your files.

"It is requested that as soon as you receive from The First National Bank of Philadelphia three copies of the inclosed agreement marked Exhibit 1, executed in a manner satisfactory to counsel for the Federal Reserve Bank of Philadelphia, together with information satisfactory to you that the other conditions contained in the inclosed letter have been complied with, and that the First Trust Company of Philadelphia has met all requirements for admission to membership in the Federal Reserve System, you advise the Board by telegram to that effect. Upon receipt of such advice from you, a voting permit will be issued and mailed directly to the applicant, and a copy of such permit will be forwarded to you. Two executed copies of the above-mentioned agreement marked Exhibit 1 should be forwarded to the Board for its

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"records, and the third executed copy of such agreement should be retained for the records of your office.

"As stated in the Board's letter to you regarding the application of the First Trust Company of Philadelphia for membership in the Federal Reserve System, when you have received information satisfactory to you that all of the conditions contained in the inclosed letter to The First National Bank of Philadelphia have been complied with, you are authorized to issue stock in the Federal Reserve Bank of Philadelphia to the First Trust Company of Philadelphia, provided that all of the conditions of membership have been complied with or accepted."

The letter to "The First National Bank of Philadelphia", Philadelphia, Pennsylvania, and the agreement inclosed therewith, mentioned in the above letter to Mr. Austin, read as follows:

"The Federal Reserve Board has considered the application of your bank for a general voting permit under the provisions of section 5144 of the Revised Statutes of the United States entitling Livingston E. Jones, Edward M. Malpass and Carl H. Chaffee, or either one of them as Trustees under an agreement dated October 7, 1925, to vote, for all purposes, the stock which 'The First National Bank of Philadelphia' owns or controls of the 'First Trust Company of Philadelphia', Philadelphia, Pennsylvania, and hereby authorizes the issuance of such a permit to your bank, upon the following conditions:

- "I. Prior to the issuance of the general voting permit authorized herein, The First National Bank of Philadelphia shall execute and deliver to the Federal Reserve Agent, the official representative of the Federal Reserve Board, at the Federal Reserve Bank of Philadelphia (hereinafter referred to as the Federal Reserve Agent) three copies of the inclosed agreement marked Exhibit 1.
- "II. Prior to the issuance of the general voting permit authorized herein, The First National Bank of Philadelphia shall charge off or otherwise eliminate from its assets, (1) all estimated losses in loans and discounts, (2) all depreciation in stocks and defaulted securities, (3) 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, (4) all other losses, all such charge-offs or eliminations to be based upon the latest available report of examination of such bank by the appropriate

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"supervisory authorities.

"III. Prior to the issuance of the general voting permit authorized herein, The First National Bank of Philadelphia shall cause First Trust Company of Philadelphia to charge off or otherwise eliminate depreciation of \$68,119.51 in defaulted bonds and stocks, all as shown in the report of examination of such bank as of July 30, 1934, made by an examiner for the Federal Reserve Bank of Philadelphia.

"The period within which a voting permit may be obtained by compliance with the above conditions is limited to thirty days from the date of this letter, unless application for an extension of time is made to and granted by the Federal Reserve Board. This period is the same as the period within which First Trust Company of Philadelphia may accomplish membership in the Federal Reserve System by acceptance of the conditions of membership. The period for accomplishing membership may also be extended by the Board upon application.

"In connection with the requirements prescribed by the Board, it is understood, of course, that in any case where such requirements have already been complied with, no further action will be necessary in such respects except to advise the Federal Reserve Agent of the compliance.

"It will be observed that the agreements in Exhibit 1 contain broad provisions. These provisions are so phrased in order to cover future as well as present subsidiaries and affiliates of your bank.

"When the inclosed agreement marked Exhibit 1 has been executed by The First National Bank of Philadelphia, please forward three executed copies thereof to the Federal Reserve Agent and advise him of the action taken to comply with the other conditions stated herein. When the Federal Reserve Agent is satisfied that all of the conditions stated herein have been complied with, he will advise the Board of the action taken in this matter, and, when all of such conditions have been complied with, the Board will issue a voting permit to your bank."

"AGREEMENT

"In consideration of the granting by the Federal Reserve Board, under authority of section 5144 of the Revised Statutes of the United States, and pursuant to an application heretofore filed with the Federal Reserve Board by the undersigned, of a voting permit entitling the undersigned to vote, for all purposes, each share of stock which it owns or controls of its subsidiary member banks, the undersigned hereby represents, undertakes, and agrees as follows:

1. That the undersigned will not make, and will take all

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"necessary action within its power to prevent any of its subsidiaries and any other organizations with which the undersigned or any of its subsidiaries is affiliated from making, any loans or extensions of credit to, or purchases of securities under repurchase agreements from, the undersigned or any of its subsidiaries or any other organizations with which the undersigned or any of its subsidiaries is affiliated, or any investments in, or advances against, securities of the undersigned or any of its subsidiaries or any other organizations with which the undersigned or any of its subsidiaries is affiliated, except within the same limitations and subject to the same conditions and provisions as are applicable under section 23A of the Federal Reserve Act to such transactions involving member banks and their affiliates; except that this paragraph shall not apply to loans or extensions of credit by any organization to its own subsidiaries, or the purchase of securities under repurchase agreements by any organization from its own subsidiaries, or the investment by any organization in the securities of its own subsidiaries, where such transactions would not otherwise be subject to the limitations, conditions and provisions of section 23A of the Federal Reserve Act;

- "2. That the undersigned will maintain, and will cause each of its subsidiary banks to 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 general 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.

"This agreement is executed in triplicate."

Approved.

Letter dated December 15, 1934, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"The matter of examinations of 'The Chase Bank', New York, an affiliate of the Chase National Bank of New York, and of the 'International Banking Corporation', an affiliate of the

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"National City Bank of New York, has been discussed by Mr. Paulger, Chief of the Board's Division of Examinations, with Mr. Folger, of your office.

"The Chase Bank was organized under section 25 (a) of the Federal Reserve Act and therefore is subject to examination by examiners appointed by the Federal Reserve Board. The International Banking Corporation is subject to examination by the Board's examiners under the provisions of section 25 of the Federal Reserve Act and under the agreement executed by the Corporation in connection with the application of the National City Bank for the Board's permission to invest in the stock of the Corporation. As affiliates of national banks, The Chase Bank and the International Banking Corporation are also subject to examinations by your examiners under the provisions of the Banking Act of 1933, which require that

'.....in making the examination of any national bank, the examiner shall include such an examination of the affairs of all of its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank.'

"Mr. Folger has indicated that your examiners will continue to make the same general type of examinations of the International Banking Corporation and its subsidiary banking corporations and of the foreign branches of The Chase Bank as have heretofore been made by your examiners when acting under appointment of the Board, and that copies of such reports will be furnished to the Board. In order to further cooperation and avoid duplication, the Board has decided to accept for the present such examinations of the International Banking Corporation and its subsidiary banking institutions and of the foreign branches of The Chase Bank, provided these examinations disclose the information necessary to determine whether the operations of the institutions are being conducted in accordance with the applicable provisions of the Federal Reserve Act and the Board's regulations, and, in the case of the International Banking Corporation, in accordance with the provisions of the agreement executed with the Board, as well as such other information as may be necessary for the Board to discharge the duties and responsibilities imposed upon it by law. It is planned, however, that, as in the past, the Board's examiners will continue to examine at least once a year the head office in New York of The Chase Bank, which is operating under authorization granted by the Board, and arrangements have been made for an examination of such office to be conducted during December. In the future, however, arrangements can be made to have such examinations by the Board's examiners conducted jointly with the examinations by your staff of the

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"Chase National Bank, if you so desire.

"It will be appreciated if you will advise the Board whether you concur with the procedure outlined in this letter, and, if so, when it is expected that your examiners will examine the institutions referred to in this letter.

"There are inclosed for the information of your staff a copy of the Board's regulation K relating to banking corporations authorized to do a foreign banking business under the terms of section 25 (a) of the Federal Reserve Act and a copy of the agreement entered into by the International Banking Corporation with the Federal Reserve Board pursuant to the provisions of section 25 of the Federal Reserve Act."

Approved.

Letter dated December 15, 1934, approved by four 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 December 1, 1934, advising that the 'Swedesboro Trust Company', Swedesboro, New Jersey, increased its capital on June 22, 1934, from \$100,000 to \$175,000 by the sale of \$50,000 'A' preferred stock to the Reconstruction Finance Corporation and \$25,000 'B' preferred stock locally, and recommending approval of a reduction in common capital stock from \$100,000 to \$50,000, pursuant to a plan which provides for the use of the released capital in eliminating a corresponding amount of depreciation in lower grade securities.

"It is noted that the conditions under which the subject trust company was admitted to membership do not require the Board's approval of a reduction in capital, but that the directors of the trust company voluntarily accepted the uniform conditions numbered 1 to 18, inclusive, as revised March 11, 1933, and as amended June 30, 1933, and that number 9 of such conditions requires the Board's approval of any reduction in capital stock.

"As you were advised in the Board's letter to you dated May 5, 1934, in connection with the Carlisle Trust Company, Carlisle, Pennsylvania, it is doubtful whether the new conditions voluntarily accepted by the member trust company are legally effective, and, accordingly, it is doubtful whether the Board's approval of the proposed reduction of capital in the present case is required. The Board, however, has given consideration to the proposed transaction, and in view of the circumstances, and your favorable recommendation, will

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"interpose no objection to the reduction in capital as outlined in your letter, provided that none of the released capital is returned to stockholders but is used in eliminating depreciation in lower grade securities shown in the report of examination as of October 27, 1934; that the reduction has been approved by the Commissioner of Banking and Insurance of the State of New Jersey, and that your counsel is satisfied as to the legal aspects of the case. It will be appreciated if you will advise the Board when the eliminations have been effected, and forward copies of any amendments to the trust company's charter which are adopted in connection with the reduction in capital."

Approved.

Letter dated December 15, 1934, approved by four members of the Board, to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to the report of examination of April 14, 1934, of the 'Security-Peoples Trust Company', Erie, Pennsylvania, and the supplementary information submitted in connection therewith.

"Although the capital position of the bank had been strengthened through the sale of \$300,000 of preferred stock to the Reconstruction Finance Corporation, the report of examination reflects an unsatisfactory condition with an inadequate amount of sound capital to support deposit liabilities. After deducting depreciation in securities of \$283,300 and estimated losses amounting to \$347,300 in other assets, and after allowance for assets amounting to \$171,500 classified as doubtful, the bank had a net sound capital of \$454,700 as compared with deposits of \$9,219,200, while the bank's investment in banking house and furniture and fixtures was carried at \$768,000 and other real estate amounted to \$233,000, of which \$20,300 was classified as estimated loss. It has been observed that the bank has filed an application with the Reconstruction Finance Corporation for the sale of an additional amount of preferred stock. In view of the importance of providing an adequate amount of sound capital to support the bank's deposit liabilities, the Board feels that the parties at interest should make every effort at this time to provide an adequate amount of additional capital funds, and it is hoped that your efforts to accomplish this result will be successful.

"It has been noted that, while the report of examination reflects estimated losses of \$347,300 and depreciation amounting

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"to \$280,000 in stocks, defaulted bonds and securities other than those in the four highest grades, an aggregate of \$627,300, eliminations of unsatisfactory assets have only been made in the amount of \$199,216. It is assumed that you have called the attention of the management of the Security-Peoples Trust Company to the position previously expressed by the Board that a bank's published statements should reflect the true condition of the bank, and that estimated losses as classified by the examiner and depreciation in at least securities other than those in the four highest grades, should be promptly charged off or otherwise eliminated. Please advise the Board as to what action the bank has taken or proposes to take to accomplish such further corrections.

"The report of examination reflects other unsatisfactory features in the condition of the bank and it will be appreciated if you will keep the Board advised as to the progress made in effecting corrections in the criticized matters."

Approved.

Letter dated December 15, 1934, approved by four members of the Board, to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Receipt is acknowledged of your letter of November 20, 1934, with its inclosures, in answer to the Board's letter of October 25, 1934, regarding the liability of the 'Southwest Bank of St. Louis', St. Louis, Missouri, for the repayment of funds aggregating \$57,000 deposited by certain directors as a guaranty against bond depreciation and recently applied to the bond account.

"It appears that the depositors of the funds have not released the bank from liability for repayment and that the bank has a liability for the amount of the funds which should be reflected in its statement of condition. In view of the nature of the agreement under which the funds were deposited by the directors, the Board concurs in your opinion that such liability would be more properly shown in the bank's statement as a deposit liability rather than part of the capital funds.

"Since the date of the examination, the bank has reduced its common capital stock from \$200,000 to \$40,000, using the released capital together with its surplus of \$40,000 in eliminating \$200,000 of unsatisfactory assets, which left a capital structure of \$425,000, consisting of \$185,000 capital debentures sold to the Reconstruction Finance Corporation and \$200,000 preferred stock sold to local interests, in addition

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"to the remaining common capital. After giving effect to the eliminations effected there remains in the bank, on the basis of the report of examination as of May 22, 1934, depreciation in lower grade and defaulted securities of an amount sufficient to completely eliminate the common capital and seriously impair the preferred stock, although the remaining net sound capital, including the subordinated deposit of \$57,000, will be equivalent to approximately 11 per cent of the total deposits. In your letter dated July 17, 1934, to the board of directors of the bank, you called attention to the importance of effecting some plan to accomplish the elimination of the remaining losses and to the directors' responsibility in connection with filing reports of condition and published statements which do not reflect the true condition of the bank. In response to this letter the bank indicated in its letter of August 14, 1934, that the matter would be corrected in the future by bracketing the capital figures to show the net capital account after elimination of the losses as classified by the examiner. It has been noted, however, that in the report of condition as of October 17, 1934, the capital was reported as \$425,000 and no recognition was given to the remaining estimated losses. It is requested, therefore, that, if you have not already done so, you discuss this question again with the management and advise the Board of the action proposed in order that the bank's reports and published statements may more nearly reflect the true condition of the bank."

Approved.

Letter dated December 15, 1934, 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 Kenmore', Kenmore, New York, from \$400,000 to \$200,000, 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 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 December 5, 1934."

Approved.

Telegram dated December 15, 1934, approved by four members

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of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, stating that the Board has given consideration to the application of "General Educational Fund, Inc. Founded by Emma Eliza Curtis", Burlington, Vermont, 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 Merchants National Bank of Burlington", Burlington, Vermont, 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,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and 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 reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit."

and for the following purposes:

"To elect directors of such bank at the annual meeting

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"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 General Educational Fund, Inc. Founded by Emma Eliza Curtis, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Telegram dated December 15, 1934, approved by four members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, stating that the Board has given consideration to the application of the "Merchants Corporation", Bangor, Maine, 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 Merchants National Bank of Bangor", Bangor, Maine, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"(1) Prior to the issuance of the limited voting permit authorized herein,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and 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 reports of

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"examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit.

"(2) At the time the charge-offs or eliminations as required by (1) above are made, The Merchants National Bank of Bangor shall readjust and/or rehabilitate its capital structure in such manner that its capital and surplus accounts will not be impaired after making such required charge-offs and/or eliminations."

and for the following purposes:

"To elect directors of such 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 the Merchants Corporation, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Telegram dated December 15, 1934, approved by four members of the Board, to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, stating that the Board has given consideration to the application of the "Lehnhard Investment Company", Monett, Missouri, for a voting permit under the authority of section

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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 Monett", Monett, Missouri, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"(1) Prior to the issuance of the limited voting permit authorized herein,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and 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 reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit."

"(2) Prior to the issuance of the limited voting permit authorized herein, you shall receive assurances satisfactory to yourself that applicant will deliver to you prior to March 1, 1935, Exhibit B, properly certified, and Exhibit C, F.R.B. Form P-2, properly certified."

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 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.

"(2) To authorize the issuance by such bank of common and/or preferred stock in accordance with a plan which shall

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"be satisfactory to the Comptroller of the Currency and the Federal Reserve Agent at the Federal Reserve Bank of St. Louis.

"(3) To authorize a reduction in capital stock, change in number of shares of stock and/or change in par value of shares of stock of such bank in accordance with a plan which shall have been approved by the Comptroller of the Currency and the Federal Reserve Board, and which shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of St. Louis.

"(4) To make such amendments to the articles of association and/or by-laws of such bank as shall be necessary for the purposes stated in (2) and (3) above."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Lehnhard Investment Company, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Telegram to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, stating that the Board has given consideration to the application of the "Continental Bank & Trust Company", Fort Worth, Texas, 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 "Continental National Bank of Fort Worth", Fort Worth, Texas, 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,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has

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"charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and 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 reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit."

and for the following purposes:

"To elect directors of such 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 the Continental Bank & Trust Company, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Telegram dated December 15, 1934, approved by four members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that the Board has given consideration to the application of the "Peoples Corporation",

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Seattle, Washington, 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 "Peoples Bank and Trust Company", Seattle, Washington, 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,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and 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 reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit."

and for the following purposes:

"To elect directors of such 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 Mr. Sargent to have prepared by counsel for the Federal reserve bank and to issue to the Peoples Corporation,

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a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Telegram dated December 15, 1934, approved by four members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that the Board has given consideration to the application of the "Sebastopol National Securities Company", Sebastopol, California, 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 Sebastopol National Bank", Sebastopol, California, 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,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and 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 reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal

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"Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit."

and for the following purposes:

"To elect directors of such 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 Mr. Sargent to have prepared by counsel for the Federal reserve bank, and to issue to the Sebastopol National Securities Company, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Letter dated December 15, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"This refers to a question raised by one of the Federal Reserve Agents with regard to whether or not the approval of the Federal Reserve Board of the retirement of preferred stock of a national bank or of the retirement of capital notes or debentures or preferred stock of a State member bank is required.

"In connection with the inquiry regarding the retirement of preferred stock of a national bank, you are advised that the Board has heretofore taken the position that in view of the provisions of section 302 of the Emergency Banking Act of March 9, 1933, the Board's approval is not required with respect to the reduction of preferred stock of a national bank. Under the terms of such section 302, preferred stock issued by national banks is made subject to retirement in such manner and upon such conditions as may be provided in the Articles of Association of the bank, with the approval of the Comptroller of the Currency.

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"Under the provisions of the Federal Reserve Act a State member bank is not required to obtain the approval of the Federal Reserve Board of a reduction in its capital stock, either common or preferred, unless the particular State member bank is subject to a condition of membership requiring the Board's approval of a reduction of its capital stock. The Board feels that in any case where the Board's approval of the reduction of the capital stock of a State member bank is required under a condition of membership such approval would be required of a reduction of preferred stock as well as common stock.

"Under the provisions of section 9 of the Federal Reserve Act, as amended, as you know, the terms 'capital' and 'capital stock', for the purposes of membership of State banks in the Federal Reserve System, shall include the amount of outstanding capital notes or debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation. In view of this fact, the Board feels that in any case where, under a condition of membership, the Board's approval of the reduction of the capital stock of a State member bank is required, approval of the reduction of capital notes or debentures lawfully issued by such bank and purchased by the Reconstruction Finance Corporation would also be required. On the other hand, in the case of any State member bank not subject to such a condition of membership, the Board's approval of a reduction of such capital notes or debentures issued by the bank would not be required.

"The Board understands that provision is usually made, among other things, for the retirement from time to time of capital notes or debentures or preferred stock out of earnings of the bank and that, accordingly, there may be numerous reductions in comparatively small amounts of capital notes or debentures or preferred stock issued by State member banks. In the circumstances, the Board feels that it is appropriate to authorize the respective Federal Reserve Agents, in cases in which the Board's approval is required, to approve on the Board's behalf reductions of capital notes or debentures or preferred stock issued by State member banks where, in the opinion of the Federal Reserve Agent, all of the circumstances involved warrant such a reduction and where after such reduction is accomplished the member bank will have an unimpaired capital and surplus of not less than one-tenth of the amount of its deposit liabilities. Each of the Federal Reserve Agents is accordingly hereby authorized to approve on behalf of the Board, in the circumstances and within the limitations described, reductions of capital notes or debentures or preferred stock issued by State member banks in any case where the Board's approval of such reduction is required.

"It is requested that in any such case the Board be advised

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"for its records of the reduction which has been effected with the Agent's approval. Of course, should any case arise in which for any reason the Federal Reserve Agent is in doubt as to the wisdom of the proposed reduction or is unwilling to give his approval thereto under the authority granted herein, the bank's application may be submitted to the Board for determination, together with current information as to the condition of the applying bank, its reason for desiring to effect the reduction and any other information, including the Agent's comments and recommendation, which may be of assistance to the Board in passing upon the application.

"It is assumed, of course, that in passing upon any proposed reduction of capital notes or debentures or preferred stock, the Agent will give consideration to the general condition of the institution and the sufficiency of its remaining capital structure, with due regard to the maintenance of lawful capital requirements and an adequate ratio of capital to deposits in view of all the circumstances involved in the particular case.

"While, as noted above, the Board's approval of reductions of capital stock or capital notes or debentures is not required under the law in some cases, the Board feels, in view of the important effect which a reduction in the capital stock of a bank may have on its financial condition, that the respective Federal Reserve Agents should endeavor to keep themselves informed as to any proposed reductions in the capital stock or capital notes or debentures of State member banks, whether the Board's approval is required in such cases or not, and to take such action as may be appropriate in any case where the proposed reduction would not be to the best interests of the bank.

"The Board would like to be advised for its records of each reduction effected in the capital stock or capital notes or debentures of a State member bank, and the Board will be glad to give consideration to any such proposed reduction in any case in which the Federal Reserve Agent feels that the circumstances warrant, even though the Board's approval of the reduction is not required under the conditions of membership to which the particular State member bank is subject."

Approved.

Letter dated December 15, 1934, approved by four members of the Board, to the Securities and Exchange Commission, reading as follows:

"There are inclosed herewith copies of a letter received

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"by the Federal Reserve Board from the Federal Reserve Agent at New York and of certain inclosures therewith, relating to the question whether the Bankers Trust Company, a State member bank of the Federal Reserve System, may continue to hold certain described notes of the Shell Union Oil Corporation either as investment securities or in a loan account. You will observe that it is stated in the correspondence inclosed that these notes were offered to not in excess of twenty-five possible purchasers and, accordingly, were not registered under the Securities Act of 1933. It is also stated that the matter was discussed with your Commission prior to the issue of the notes and that there was no necessity for registering them. In the circumstances, before the Federal Reserve Board replies to the letter from the Federal Reserve Agent, it will be appreciated if you will advise whether you are in agreement with the statements made as to the necessity for registration under the Securities Act of 1933, together with such other comments, if any, as you may care to make."

Approved, together with a letter, also dated December 15, 1934, and approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"There are inclosed herewith copies of a letter addressed to the Federal Reserve Board by the Federal Reserve Agent at the Federal Reserve Bank of New York and of the inclosures therewith, in which it is stated that the Bankers Trust Company of New York City, a member bank of the Federal Reserve System, has requested to be advised whether there is any objection to its continuing to hold either as investment securities or in a loan account certain described notes of the Shell Union Oil Corporation.

"As you know, a State member bank of the Federal Reserve System under the provisions of section 9 of the Federal Reserve Act as amended is subject to the same limitations and conditions with respect to the holding of investment securities as are applicable in the case of national banks under paragraph 'Seventh' of Section 5136 of the Revised Statutes. In the circumstances, before the Federal Reserve Board replies to the letter from the Federal Reserve Agent, it will be appreciated if you will advise of the views of your office with regard to the question whether notes of the kind described in the inclosed correspondence are to be regarded as investment securities within the meaning of that term as used in Section 5136 of the Revised Statutes and as further defined by regulations of the Comptroller of the Currency pursuant to that statute.

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"Among the inclosures with the letter received from the Federal Reserve Agent is a copy of the trust agreement between the Shell Union Corporation and the Guaranty Trust Company of New York with respect to the notes in question. The Board has no copy of this agreement, however, other than that inclosed herewith and, accordingly, it is requested that you return the inclosed copy with your reply."

Letter dated December 15, 1934, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter dated October 29, 1934, regarding the question whether the Midway National Corporation is a holding company affiliate of the Midway National Bank of St. Paul, St. Paul, Minnesota, within the meaning of section 2(c)(1) of the Banking Act of 1933.

"In your letter you request a ruling by the Federal Reserve Board upon the following questions:

"Does a holding company affiliate cease to be such when the Reconstruction Finance Corporation acquires voting control in a member bank: (a) When such holding company after the acquisition of voting control by the Reconstruction Finance Corporation owns more than 50% of the number of shares voted at the last preceding election of directors? (b) Where the holding company owns less than 50% of the number of shares voted at the last preceding election of directors?"

"In answer to question (a) the Board is of the opinion that a holding company affiliate does not cease to be such after the acquisition of voting control by the Reconstruction Finance Corporation where the holding company owns more than 50% of the number of shares voted at the last preceding election of directors.

"In answer to question (b) it is the opinion of the Board that a holding company affiliate does cease to be such after the acquisition of voting control by the Reconstruction Finance Corporation where the holding company owns less than 50% of the number of shares voted at the last preceding election of directors, assuming, of course, that there are no factors other than stock ownership which would cause the holding company to be a holding company affiliate.

"In the second paragraph of your letter you also raise the question whether acquisition by the Reconstruction Finance Corporation of voting control of a member bank will cause the

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"Reconstruction Finance Corporation to become a holding company affiliate of such bank. As stated in its letter to all Federal reserve banks dated January 4, 1934 (X-7741), the Board is of the opinion that the Reconstruction Finance Corporation is not a holding company affiliate of a member bank in which it owns a majority of the capital stock, within the meaning of section 2(c) of the Banking Act of 1933."

Approved.

Thereupon the meeting adjourned.

Robert Howell
Secretary.

Approved:

W. C. C. C.
Governor.