

A meeting of the Federal Reserve Board was held in Washington on Thursday, January 3, 1935, at 3:00 p. m.

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

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

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as at the close of business on December 31, 1934, and that, in accordance with the usual practice, a call was made on behalf of the Federal Reserve Board on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was ratified.

The Board then acted upon the following matters:

Memorandum dated December 27, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Susan Burr Litchfield as a research assistant in the division, with salary at the rate of \$5,200 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed a satisfactory physical examination.

Approved.

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

"The Federal Reserve Board has received your letter of December 21, 1934, and, in accordance with the recommendation contained therein, approves the appointment of Mr. Zell G. Fenner as chief examiner in the Federal Reserve agent's department of your bank at salary rate of \$5,496 per annum. Please advise effective date and furnish the Board with the necessary revision in the Personnel Classification Plan, Form A, to provide for the position of chief examiner."

Approved.

Telegram to Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Your letters November 28 and December 15 re service of Mr. A. H. Eckles, director of your Louisville Branch, as member of Christian County Budget Commission and member of Christian County Highway Bond Commission. Board is of opinion that service by Mr. Eckles in these capacities is not contrary to spirit of Board's ruling of December 23, 1915, and will interpose no objection to his continuing his service in the positions."

Approved.

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

"Reference is made to Mr. Dillistin's letter of November 16, 1934, with inclosures, advising of the eliminations which have been made by 'The Plainfield Trust Company', Plainfield, New Jersey, following the purchase of \$750,000 preferred stock by the Reconstruction Finance Corporation.

"Although the condition of the bank has been materially improved by the sale of the preferred stock, it is still undercapitalized, especially in view of the examiner's comments that there are further possible substantial losses in mortgage loans and other real estate, and the fact that the bank's investment in its affiliate, the Plainfield Title and Mortgage Guaranty Company, is not a desirable offset to deposit liabilities. It is understood that in connection with the issuance of the preferred stock the bank agreed with the Reconstruction

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"Finance Corporation to sell not less than \$100,000 common stock before July 1, 1935. On the basis of the present information, this would still leave the bank in an under-capitalized condition, and it is hoped that an adequate increase in capital can be effected as soon as possible. It is assumed that you will continue to exert your influence to that end.

"According to the report of examination as of April 9, 1934, the 'other real estate' account as shown by the books of the bank amounted to \$467,000 and both your examiner and the State examiner reported that mortgages amounting to \$598,000 carried in loans actually represented other real estate, title to which was carried in the name of nominees for account of the bank, and in their reports of examination made adjustments to show such loans as other real estate. The Board feels that the books of a bank should correctly reflect its condition and that in this connection any properties which are in reality the bank's property should be shown as such, and you are requested to advise the Board what action has been or will be taken in order that the books of the bank may reflect the true condition in this respect.

"The report of examination referred to indicates that the trust department held in various trusts \$2,318,000 mortgages and participation certificates guaranteed by the Plainfield Title and Mortgage Guaranty Company, an affiliate of the bank, and that suit had been brought against the bank on account of the purchase for one trust of such certificates amounting to \$152,000. Please advise the Board as to the status of the suit and as to whether any other claims have been made against the bank on account of such investments. The Board feels that a bank should scrupulously refrain from dealing with itself in the investment of trust funds, and, as you know, for some time has prescribed a standard condition of membership prohibiting a bank accepting the conditions from investing trust funds held by it in obligations of the bank's directors, officers, employees, or their affiliations, or corporations affiliated with the bank. In this connection, also, the Statement of Principles of Trust Institutions which was incorporated in the Bankers' Code of Fair Competition has the following comments:

'It is a fundamental principle that a trustee should not have any personal financial interest, direct or indirect, in the trust investments, bought for or sold to the trusts of which it is trustee, and that it should not purchase for itself any securities or other property from any of its trusts. Accordingly, it follows that a trust institution should not buy for or sell to its estates or trusts any securities or other property in which it, or its affiliate, has any personal financial interest, and should

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"not purchase for itself, or its affiliate, any securities or other property from its estates or trusts."

"It will be appreciated, therefore, if you will discuss with the bank in the light of the principles expressed above the question of self-dealing in the investment of trust funds and advise the Board what action the bank has taken or will take in the matter."

Approved.

Letter to "The National Bank of Lorain", Lorain, Ohio,
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, 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 Ohio, only in the specific trusts in which The National Bank of Commerce of Lorain had been appointed and was acting on the date The National Bank of Lorain was authorized by the Comptroller of the Currency to commence business, 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. Action upon your application for full fiduciary powers has been deferred until after an examination has been made of your bank and a report of such examination is available.

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

"Inasmuch as the application of The National Bank of Lorain, Lorain, Ohio, was made prior to the date the Comptroller of the Currency authorized it to commence business, you are requested to have your board of directors adopt a resolution ratifying your application for permission to exercise trust powers, and a certified copy of the resolution so adopted should be forwarded as soon as possible to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland, who will forward it to the Federal Reserve Board."

Approved.

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Letter to "The First National Bank at Ponca City", Ponca City, Oklahoma, 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 Oklahoma.

"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:

"Receipt is acknowledged of your supplemental memorandum of December 26, 1934, with reference to the proposed reduction in common capital stock of 'The National Iron Bank of Morristown', Morristown, New Jersey, which was approved by the Board on October 18, 1934, in accordance with the recommendation contained in your memorandum of October 1, 1934.

"In accordance with the recommendation contained in your supplemental memorandum the Federal Reserve Board approves the reduction in common capital stock of the above named bank from \$250,000 to \$50,000, with the understanding that the released capital, together with a portion of the bank's surplus and undivided profits accounts, shall be used to eliminate estimated losses and net depreciation in investment securities as shown in the report of examination as of October 24, 1934, and that the other provisions of the plan as originally approved remain unchanged."

Approved.

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

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"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Oakland', Oakland, Maryland, from \$50,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$25,000 of preferred stock to the Reconstruction Finance Corporation and that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in your letter of December 26, 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 American National Bank of Bowling Green', Bowling Green, Kentucky, from \$125,000 to \$25,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$25,000 of new common stock to local interests and that the released capital shall be used to eliminate a corresponding amount of substandard assets, and provides also for the release of the existing pledge-back agreement on the outstanding preferred stock, all as set forth in your memorandum of December 22, 1934."

Approved.

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

"Reference is made to the application of 'City National Company of Battle Creek', Battle Creek, Michigan, dated January 5, 1934, for a permit under the provisions of Section 5144 of the U. S. R. S., as amended, to vote the stock owned or controlled by it of 'The City National Bank and Trust Company of Battle Creek', Battle Creek, Michigan, and to the letter of Assistant Federal Reserve Agent Young, dated January 13, 1934, recommending the issuance of a limited voting permit for the purposes of electing directors and acting upon matters of a routine nature, and of acting upon any proposal to create and issue common and/or preferred stock by The City National Bank and Trust Company of Battle Creek in accordance with a plan which should be approved by the appropriate supervisory authorities and should be

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"satisfactory to you.

"Under date of January 30, 1934, the Board authorized you to issue a limited voting permit to the applicant for the purposes recommended by you as hereinbefore described, conditioned upon the applicant's agreeing to rehabilitate the capital structure of its subsidiary bank by voluntary contributions, issuance of common and/or preferred stock, sale of capital notes or debentures, or otherwise, in such amount and in accordance with such plan or plans as should be approved by the Comptroller of the Currency and should be satisfactory to you; to cause such bank to charge off or otherwise eliminate all estimated losses in loans and other assets and all depreciation in securities not of the four highest grades; and upon the applicant's agreeing further that all assets of such bank which should be charged off, pursuant to the preceding clause, should remain the property of such bank. The limited voting permit thus authorized was not issued, apparently on account of the applicant's failure to agree to the conditions with respect to the rehabilitation of the capital structure of its subsidiary bank. You are also aware of the fact that, due to the dilatory tactics of the management of the bank, plans for the rehabilitation of the capital structure of the bank have not been presented in spite of the many urgent requests of the Comptroller of the Currency that definite steps be taken to formulate a rehabilitation plan.

"The following is a tabulation of the capital structure and eliminations required as a condition precedent to the issuance of a limited voting permit for the purposes set forth in the Board's letter of November 10, 1934 (X-9018), based upon the report of examination of The City National Bank and Trust Company of Battle Creek as of October 8, 1934:

Capital structure:			
Common stock		\$600,000	
Surplus		350,000	
Undivided profits		17,780	
Reserves		<u>3,450</u>	\$971,230
Required eliminations:			
Estimated losses (excl. depr.)	619,682		
Depreciation in securities not of the four highest grades		<u>188,817</u>	<u>808,499</u>
Net capital structure after required eliminations			<u>\$162,731</u>
Capital impairment			<u>\$437,269</u>

"The Board feels that in a case of this kind the holding company affiliate and its subsidiary banks ordinarily should have a satisfactory capital structure after having charged off or otherwise eliminated at least all estimated losses in loans

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"and discounts, all depreciation in stocks and defaulted securities, all depreciation in securities not of the four highest grades, and all other known losses, such charge-offs and eliminations to be based upon current examinations or credit investigations. The Board feels that in the absence of special circumstances, and there seems to be none in this case, it should not authorize the issuance of a limited voting permit unless such requirements are complied with.

"The files of the Comptroller's office indicate that for over a year President Green has failed to comply with the numerous urgent requests of the Comptroller's office to take action toward the rehabilitation of the capital structure of the bank. The Board therefore feels that it is not justified in granting a limited voting permit for the election of directors and the transaction of routine matters until a definite program providing for the rehabilitation of the subsidiary bank is agreed upon by all interested parties, and you are requested to advise the applicant of the Board's views in this matter. If the applicant should have a plan of rehabilitation of the subsidiary bank meeting with your approval, the Board will consider, upon receipt of your request, the application for a limited permit authorizing the applicant to effect such plan. Please keep the Board advised of any plan of the applicant or the subsidiary bank to rehabilitate the capital structure of the bank or to strengthen its management."

Approved.

Telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, authorizing him, subject to the conditions prescribed in the telegram, to issue a limited voting permit to "Trustees under Trust Agreement with Reference to Stock of The First National Bank of Louisville, Louisville, Kentucky, and other corporations, dated July 1, 1925", Louisville, Kentucky, entitling such organization to vote, for the purposes set forth in the telegram, the stock which it owns or controls in the following banks:

"The First National Bank of Louisville", Louisville, Kentucky,
 "Kentucky Title Trust Company", Louisville, Kentucky,
 "The First National Bank of Nicholasville", Nicholasville, Kentucky,

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"Madison-Southern National Bank & Trust Company of Richmond",
 Richmond, Kentucky,
 "Boyle Bank and Trust Company", Danville, Kentucky.

Approved.

In connection with the above, there was presented a second telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, authorizing him, subject to the conditions prescribed in the telegram, to issue a limited voting permit to "The First National Bank of Louisville", Louisville, Kentucky, entitling such organization to vote, for the purposes set forth in the telegram, the stock which it owns or controls in the following banks:

"Kentucky Title Trust Company", Louisville, Kentucky,
 "The First National Bank of Nicholasville", Nicholasville,
 Kentucky,
 "Madison-Southern National Bank & Trust Company of Richmond",
 Richmond, Kentucky,
 "Boyle Bank and Trust Company", Danville, Kentucky.

Approved.

Letter dated January 2, 1935, approved by five members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the application of 'First National Corporation of Breckenridge', Breckenridge, Minnesota, for a permit under the provisions of section 5144 of the Revised Statutes of the United States entitling such corporation to vote the stock owned or controlled by it of 'The First National Bank of Breckenridge', Breckenridge, Minnesota, and to your letter of November 28, 1934, recommending the issuance of a limited voting permit for the purpose of electing directors and transacting routine matters.

"In its ANCIGAR telegram dated January 6, 1934, the Board authorized the issuance of a limited permit to the applicant to elect directors of its subsidiary bank, to act upon routine matters and to increase the capital stock of

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"such bank at any time prior to July 1, 1934, in accordance with such plan or plans as might be approved by the appropriate supervisory authorities and by you. As a condition precedent to the issuance of the permit authorized, an agreement was executed on January 12, 1934, which essentially provided that the applicant would cause the capital of its subsidiary bank to be rehabilitated by contributions, issuance of stock or otherwise and would cause the election or appointment of a management satisfactory to the District Chief National Bank Examiner and to you.

"The available information indicates that no rehabilitation plan has been effected, and that the same management is still in charge of the subsidiary bank. It also appears that on June 22, 1934, the Reconstruction Finance Corporation agreed to purchase \$40,000 of Class 'A' preferred stock to be issued by the subsidiary bank upon the condition, among others, that local interests would subscribe to Class 'B' preferred stock in the amount of \$25,000. However, as you know, the trustees of the F. E. Kenaston Estate, which owns 163 shares of the 234 shares outstanding of the applicant, have refused to make any contribution for the rehabilitation of the bank.

"The report of examination of The First National Bank of Breckenridge as of September 10, 1934, indicated that the bank was insolvent. Its capital structure after adjustments to meet the requirements outlined in the Board's letter of November 10, 1934 (X-9018), is shown as follows:

<u>Present Capital Structure - per books:</u>	
Common stock	\$50,000
Surplus	10,000
Undivided profits - (deficit)	(4,107)
Total	<u>\$ 55,893</u>
<u>Required eliminations:</u>	
Estimated losses (not including depreciation)	59,289
Depreciation in stocks, defaulted and low grade securities	9,250
Total eliminations	<u>\$ 68,539</u>
<u>Deposit impairment:</u>	<u>\$ 12,646</u>
(after required eliminations)	

"The estimated losses include banking house, \$16,000, furniture and fixtures \$1,000 and other real estate \$7,600, totaling \$24,600. Confidentially, you are advised that the Chief National Bank examiner has indicated that the charge-off of these three items might not be required by the Comptroller of the Currency at this time if other losses and doubtful items could be cared for. However, even if this amount were omitted from the computations shown above, there

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"would still be a capital impairment of approximately \$38,000 after making the other required eliminations. The Chief National Bank Examiner also stated in a letter to the Comptroller of the Currency dated September 28, 1934, that 'as the local people are unable or unwilling, or both, to meet this requirement (subscribe to Class "B" stock), I see little hopes of strengthening the bank, and it appears as if liquidation will have to be the eventual outcome'.

"As you know, under the provisions of section 5144 of the Revised Statutes of the United States, in acting upon applications for voting permits, the Board is required to consider the financial condition of the applicant, the general character of its management and the probable effect of the granting of a permit upon the affairs of the subsidiary bank. The Board feels that in a case of this kind the holding company affiliate and its subsidiary banks ordinarily should have a satisfactory capital structure after having charged off or otherwise eliminated at least all estimated losses in loans and discounts, all depreciation in stocks and defaulted securities, all depreciation in securities not of the four highest grades and all other known losses, such charge-offs and eliminations to be based upon current examinations or credit investigations. The Board believes that in the absence of special circumstances, and there seems to be none in this case, it should not authorize the issuance of a limited voting permit unless such requirements are complied with. Accordingly, it will be appreciated if you will advise the applicant of the Board's views in this matter.

"If the applicant should submit a plan of rehabilitation of the subsidiary bank, satisfactory to you, the Board will consider the application for a limited permit authorizing the applicant to effect such plan. In this connection, it will be appreciated if you will keep the Board advised of any plan of the applicant or the subsidiary bank to rehabilitate the capital structure of the bank or to strengthen its management.

"After you have considered the views expressed in this letter, and after you have discussed this matter again with the applicant and its subsidiary bank, if you still believe that a limited permit should be issued at this time, please advise the Board of such fact, together with your recommendations as to the conditions to be imposed, and the matter will be given further consideration.

"In the consideration of this application it was noted from the report of examination of The First National Bank of Breckenridge as of September 10, 1934, that Mr. M. J. Crowe, a recently elected director, may also be serving as an employee of Northwestern National Bank and Trust Company, Minneapolis, Minnesota. The Board's files indicate that an

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"application for a Clayton Act permit has not been received covering Mr. Crowe's services. Please ascertain and advise whether Mr. Crowe's services with the two banks named above are in conformity with the provisions of the Clayton Act, and whether a Clayton Act permit is necessary. If it is ascertained that a permit is necessary, please advise Mr. Crowe of the procedure to be followed in making application therefor, at the same time forwarding to him the necessary application forms and a copy of the Board's Regulation L, series of 1933. In any event please advise the Board as to Mr. Crowe's present Clayton Act status, and, if a permit is necessary, when an application for a Clayton Act permit may be expected."

Approved.

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to the "First Bank Stock Corporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls in "The Merchants & Miners National Bank of Ironwood", Ironwood, Michigan, and "The First National Bank of Hancock", Hancock, Michigan, for the purposes set forth in the telegram. The telegram also stated that it provides the authorization requested in the agent's telegram dated January 2, 1935.

Approved.

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls in the "Union Bank and Trust Company", Helena, Montana, for the purpose of adopting new by-laws for such bank.

Approved.

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Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In connection with the grant of trust powers to national banks it has been the practice of the Federal Reserve Board to notify the State banking authorities of New York, Maryland, Michigan and Idaho, in accordance with requests received from them, of the grant of trust powers to national banks in their respective States, and also of the surrender of trust powers previously granted to such banks.

"It is the view of the Board that hereafter advice of the grant or termination of trust powers should be furnished to the State banking department in each instance, whether formal request for such information has been made or not, and it is therefore requested, if you are not already doing so, that whenever the Board grants trust powers to a national bank in your district, or certifies that trust powers heretofore granted have been surrendered, you notify the appropriate State banking authorities of the Board's action. In order to avoid duplication, the Board will discontinue furnishing such advice to the State banking departments which have previously been notified by it of the grant and termination of trust powers.

"Similar advice, including the conditions prescribed, should be given to the respective State banking departments when the Board authorizes the exercise of trust powers by a State bank subsequent to its admission to membership in the Federal Reserve System."

Approved.

Letter to Mr. Crane, Deputy Governor of the Federal Reserve Bank of New York, reading as follows:

"Governor Eccles has asked me to reply to your letter of December 19, 1934, in regard to advances recently made which have been carried in the weekly statement under the caption 'Foreign Loans on Gold'. In view of all the circumstances, the Board feels that instead of including such advances in the item 'All other assets' it would be preferable to include them in the item 'Other bills discounted', and authorizes the adoption of this practice in the future with respect to such advances. It is understood that this change from your recommendation is satisfactory to you."

Approved.

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Letter to Mr. Lothar Ullmann, New York, New York, reading as follows:

"Your letter of December 7, 1934, to the Postmaster General, inclosing a carbon copy of your letter of the same date to the President, has been referred to the Federal Reserve Board for reply.

"This correspondence deals with the application of your company to the Federal Reserve Bank of New York for an industrial advance under the provisions of Section 13b of the Federal Reserve Act. The same matter was the subject of letters addressed to you from this office on October 16, 1934, and November 26, 1934.

"It is a requirement of Section 13b that loans made thereunder shall be on a reasonable and sound basis, and it is evident, therefore, that the Federal Reserve banks have no authority to make such loans without either adequate security or satisfactory evidence that the loans can be repaid out of earnings. The Board is advised that after careful consideration the Industrial Advisory Committee and the officers of the Federal Reserve Bank of New York were of the opinion that neither of these conditions is fulfilled in the present instance. Since the application was thoroughly investigated and full consideration was given to all its aspects, it does not appear that any further action can be taken by the Federal Reserve Board with respect to it."

Approved.

Letter to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Your letter of December 27 inclosing a copy of a letter from Mr. Henry Stephens, Jr., Cashier, The First National Bank, Prestonburg, Kentucky, with regard to the rate of interest which may be paid on time and savings deposits will be brought to the attention of the Federal Reserve Board.

"If the First National Bank of Prestonburg should lose any substantial amount of deposits to its competitors because of the difference in rates paid on time and savings deposits, it will be appreciated if you will furnish the Board with full information regarding such loss, including the amount thereof."

Approved.

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

"There is inclosed herewith for your information a copy of a letter received by the Federal Reserve Board from the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis with regard to industrial loans in which national banks participate with Federal reserve banks. You will observe the statements which have been made with reference to this matter by Mr. Peyton and by Mr. Baldrige, Chief National Bank Examiner of the Ninth Federal Reserve District.

"It is understood that a national bank under the provisions of section 24 of the Federal Reserve Act may not make a loan upon the security of real estate unless it takes the entire amount of the obligation. In view of the fact, however, that a national bank which sells to or rediscounts with a Federal reserve bank an obligation evidencing an industrial loan is ordinarily obligated only to the extent of 20 percent of any loss which may occur, it would seem proper, as Mr. Peyton suggests, that the Federal reserve bank if it so desires have the handling and care of the security. You will note Mr. Peyton's statement that this is a matter of considerable importance 'as it might make a great deal of difference in our extension of credit to some applicants if it were essential that we surrender the actual handling of the collateral'. It will be appreciated if you will give consideration to this matter and if you agree with Mr. Peyton's suggestion with regard to the handling and care of the collateral in such cases, it is hoped that you will so advise Mr. Baldrige."

Approved.

Letter to Mr. Edward Jarrett, Secretary to Honorable Roy Ayers, House of Representatives, reading as follows:

"This refers to your letter of December 22, 1934, addressed to the Board's General Counsel, with which you inclosed a letter from the Hansen Bros. Garage, Great Falls, Montana, with regard to an application made by that firm for a loan from the Federal Reserve Bank of Minneapolis under the provisions of section 13b of the Federal Reserve Act.

"It is understood from the facts stated in the letter from the Hansen Bros. Garage that the proceeds of the loan applied for were not to be used to provide working capital but to furnish permanent capital to the business, and it was

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"on this basis apparently that the loan was declined by the Federal Reserve Bank of Minneapolis. A Federal reserve bank is authorized to make loans under the provisions of section 13b of the Federal Reserve Act for the purpose of providing established industrial or commercial businesses with working capital but has no authority to make such loans for other purposes.

"There are inclosed herewith two copies of the Federal Reserve Board's Regulation S which sets forth the requirements with respect to loans under this provision of law and, as indicated in the statement printed as a preface to this regulation, the Federal Reserve Board has left the broad powers granted by Congress to the Federal reserve banks in section 13b wholly unimpaired and has prescribed no restrictions beyond those in the law itself. However, Congress has seen fit to require that advances under this law be made for the purpose of furnishing working capital and a Federal reserve bank must, of course, observe this requirement in making such advances. The question is not one with respect to which either the Federal Reserve Board or the Federal reserve banks have authority to exercise a discretion.

"It is the considered policy of the Federal reserve banks to approach questions of this kind arising under section 13b of the Federal Reserve Act with a liberal viewpoint and the Federal Reserve Board also has given this question its sympathetic consideration but, in view of the fact that apparently the proceeds of the loan in question would not be used for working capital purposes, it is unable to reach the conclusion on the basis of the facts presented that the loan might lawfully be made.

"In accordance with your request Mr. Hansen's letter and inclosure are being returned herewith."

Approved.

Letter dated January 2, 1935, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Consideration has been given to the application of Mr. Bertram Cutler under the provisions of Section 32 of the Banking Act of 1933 for a permit authorizing him to serve as a director of The Chase National Bank of the City of New York, New York, New York, Morristown Trust Company, Morristown, New Jersey, and Morristown Securities Corporation, New York, New

"York. Consideration has also been given to your letter of August 15, 1934, the inclosed copy of a letter from the President of Morrismtown Securities Corporation, and the opinion of counsel for your bank relating thereto. It is noted that you and counsel for your bank feel that the relationship in question should not be regarded as subject to the provisions of Section 32. It appears that Morrismtown Securities Corporation is an investment corporation, the only business of which is the investment of its funds for the benefit of its stockholders. It appears that the purchases and sales of securities by the corporation during the years 1930 to 1934, inclusive, amounted to the following percentages of its total assets:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1930	75.7%	61.2%
1931	35.6	31.7
1932	18.4	20.5
1933	30.8	32.3
1934 (6 months)	13.3	13.3
Average for 4½ years	45.5%	40.1%

"It also appears that the securities in the corporation's portfolio as of June 30, 1934, had been purchased in the following years in the following proportions:

<u>Year</u>	<u>Common and preferred stock</u>	<u>Bonds</u>
1934	8.1%	10.6%
1933	18.7	33.7
1932	7.0	2.9
Prior years	66.2	52.8
	100%	100%

"It appears that the corporation has participated in three transactions involving the issue, underwriting and distribution of securities other than its own. Such participations, which were in relatively small amounts, were in the years 1926, 1927, and 1928, respectively. The Board feels that such transactions, when not entered into for the purpose of acquiring securities for investment at wholesale prices, are not merely incidental to the business of keeping assets invested to the best advantage, but, on the contrary, are characteristic of the principal type of organization which the Congress apparently had in mind in enacting Section 32. However, it appears that the corporation has not engaged in any such transactions since 1928 and under the circumstances it is assumed that it has definitely terminated engaging in such transactions.

"In connection with the corporation's own shares, Mr. Joseph S. Maxwell has delivered to the Board a letter addressed to him under date of December 17, 1934, from the

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"president of the corporation which states that no public offering was made of such shares, most of the shareholders being personal friends, and that the corporation has no intention in the immediate future of doing any capital financing or endeavoring to establish relations with the general public. The Board therefore understands that the corporation is not now selling any of its shares.

"On the basis of the information which has been submitted, the Board concurs in your opinion that Morristown Securities Corporation is not 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the meaning of section 32.

"Of course, what has been said above applies equally to the application of Joseph S. Maxwell for a permit to serve as officer of The New York Trust Company, New York, New York, and as director of Morristown Securities Corporation."

Approved.

Telegram dated January 3, 1935, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Basis of inquiry contained in your wire 28th regarding request of Northern Trust Company for permit in connection with water revenue bonds is not clear, since it does not appear what is nature of permit desired. If inquiry relates to permit under section 32 of Banking Act of 1933 authorizing trust company to have correspondent relationships with dealers in securities in connection with such bonds, and if such bonds were of a kind exempted from restrictions upon underwriting and dealing in securities contained in paragraph 'Seventh' of section 5136 of Revised Statutes of United States, individual permit in this case would serve no purpose in view of blanket permit covering such correspondent relationships which was granted in Trans. 2015 and extended in Trans. 2170. However, your wire indicates that bonds are not of a kind exempted from such restrictions and that therefore trust company is not permitted to underwrite or deal in such bonds since trust company is a member bank and since restrictions of section 5136 upon underwriting and dealing in securities are made applicable to all member banks by provisions of section 9 of Federal Reserve Act as amended. Board is not authorized to issue permits with respect to such restrictions, and therefore if transactions referred to in

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"your wire are within such restrictions, Board would have no authority to authorize them. If company desires further advice in connection with this matter it will be appreciated if you will furnish Board with specific advice as to nature and purpose of permit desired, including advice as to statutory provision under which permit would be issued."

Approved.

Letter dated December 31, 1934, approved by five members of the Board, to Governor Seay of the Federal Reserve Bank of Richmond, reading as follows:

"We are in receipt of your letter of November 19 in connection with the Board's letter of November 2 (X-9009) relating to requests for payments by the Secretary of the Treasury under Section 13b of the Federal Reserve Act.

"The statements contained in your letter have been considered carefully, and we appreciate fully the position you take with regard to requesting payments from the Secretary of the Treasury to cover industrial advances made by your bank. It is the evident intent of the law, however, that the Federal Reserve banks shall receive payments from the Secretary of the Treasury under Section 13b and it would appear to be desirable to request such payments, therefore, irrespective of the outlook as regards earnings on industrial advances. At the time the regulations of the Secretary of the Treasury, issued pursuant to Section 13b of the Federal Reserve Act, were being prepared the Treasury Department consulted with representatives of the Board with regard to various provisions of the regulations and it was the general understanding on the part of the Treasury and the Board that the Federal Reserve banks would request payments from time to time from the Secretary of the Treasury to cover industrial advances made by the banks.

"It is true that the Treasury regulations provide that, although the regulations may be revoked or modified, the right of a Federal Reserve bank to obtain payments from the Secretary, in accordance with the regulations in effect at the time of making a loan, shall not be prejudiced. It would not be possible, however, to obtain payments in connection with any advances that had been repaid by the borrower and, furthermore, there is no assurance that Congress will not amend Section 13b at the forthcoming session and any such amendment might affect the right of a Federal Reserve bank to obtain payments from the Secretary of the Treasury covering

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"loans theretofore made.

"As you point out in your letter, the expenses of your bank in making industrial advances and in granting commitments to make such advances during 1934 will exceed the income received by your bank from advances and commitments. Accordingly, it does not appear that your bank would be in any the worse position for having received a payment from the Secretary of the Treasury during the present calendar year if it is assumed that payments of equal or greater amount would be obtained in any event before the end of 1935.

"The Board feels that, from both a policy and accounting standpoint, it is desirable for all Federal Reserve banks to obtain such payments from the Secretary of the Treasury promptly following the making of the loans."

Approved.

Thereupon the meeting adjourned.

E. Lester Morrie
Secretary.

Approved:

[Signature]
Governor.