

A meeting of the Federal Reserve Board was held in Washington on Thursday, January 10, 1935, at 11:30 a. 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

The Board acted upon the following matters:

Telegraphic reply to a telegram dated January 10, 1935, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, stating that the board of directors of the bank, at its meeting today, voted to establish a rediscount rate of 2 1/2% on rediscounts of eligible paper for member banks and advances to member banks under the provisions of Sections 13 and 13(a) of the Federal Reserve Act, effective the first business day following that on which approved by the Federal Reserve Board. The reply stated that the Board approved for the Federal Reserve Bank of Richmond a rediscount rate of 2 1/2%, effective January 11, 1935.

Approved.

Telegram dated January 9, 1935, from Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, advising that, at a meeting of the board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

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Telegram to Mr. James Simpson, Deputy Chairman of the Federal Reserve Bank of Chicago, prepared in accordance with the action taken at the meeting of the Board yesterday and reading as follows:

"Your letter second regarding proposed designation of Deputy Governor Preston was discussed by the Board today and in expressing its views the Board desires it understood that it is doing so only because of your inquiry. Such a designation as a part of the title of a deputy governor does not exist in any other Federal reserve bank and Board feels that it would be undesirable to establish a precedent of this kind. It appears to the Board that question of seniority can be met without the adoption of a new title by determining as a matter of internal organization the rank of Mr. Preston in relation to the other deputy governors."

Approved.

Telegram to Mr. G. W. McCormick, President, Menominee River Sugar Company, Menominee, Michigan, reading as follows:

"Federal Reserve Board has appointed you Class C director of Federal Reserve Bank of Minneapolis for term ending December 31, 1937. Please wire acceptance collect."

Approved.

Letter to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"The Federal Reserve Board notes from your letter of January 3, 1935, that the board of directors of your bank, at its meeting on December 20, 1934, selected Mr. M. A. Arnold, President of the First National Bank, Seattle, Washington, as a member of the Federal Advisory Council representing the Twelfth Federal Reserve District for the year 1935, and the Board approves the compensation and allowance, fixed by your directors at their meeting on January 3, 1935, of \$750 for each meeting of the Council attended by Mr. Arnold."

Approved.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent

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at the Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit to "Vollmer Security Company", Lewiston, Idaho, entitling such organization to vote the stock which it owns or controls in "The First National Bank of Lewiston", Lewiston, Idaho, for the purpose set forth in the telegram. The telegram also referred to Mr. Sargent's telegram of January 9, and stated that since it is understood that the preferred stock of The First National Bank of Lewiston is not owned by the Reconstruction Finance Corporation but is pledged to such corporation, the authorization contained in the telegram is given in order to remove any question whether the adoption of new articles by such bank is covered by the Board's letter of December 20, 1934, X-9054, and that the authorization contained in that letter is intended to cover the adoption of new articles as well as the amendment of existing articles.

Approved.

Letter to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"The Federal Reserve Board has received your letter of January 3, 1935, and, in accordance with the request contained therein, approves the fees and allowances fixed by your board for the directors of the Federal Reserve Bank of San Francisco and its branches for the year 1935.

"Advice of the Board's action with regard to the allowance fixed for the member of the Federal Advisory Council representing the Twelfth Federal Reserve District during the current year is being sent to you in a separate letter."

Approved.

Letter to Mr. F. B. Smith, James A. Hill Manufacturing

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Company, Minneapolis, Minnesota, reading as follows:

"Receipt is acknowledged of your letter of January 3, referring further to your desire for a reduction in the rate of interest charged by the Federal Reserve Bank of Minneapolis on the \$15,000 industrial loan made to your company by that institution.

"It appears that this question was raised originally in your letter dated September 20, 1934, addressed to the Secretary of the Treasury, which was acknowledged by Mr. Jacob Viner, Assistant to the Secretary, under date of September 25, with the statement that your communication was being referred to another agency of the Government for consideration. On October 5 this office advised you that your letter was being brought to the attention of the members of the Federal Reserve Board and at the same time we communicated with the Federal Reserve Bank of Minneapolis regarding the matter.

"Subsequently the reserve bank advised the Board that there was no question as to the rate to be charged on the loan to your company at the time application was made and that it was glad to get the funds at the 6% rate, which, incidentally, was the same rate your company was charged by its own bank when it had a line of credit with it. The reserve bank also stated that in its judgment your company would not have been able at that time to have renewed at 5% the \$6,000 mortgage paid off out of the proceeds of the loan and referred to in your letter of September 20.

"Subsection (a) of Section 13b of the Federal Reserve Act authorizes the Federal reserve banks, pursuant to authority granted by the Federal Reserve Board, in exceptional circumstances, to make loans on a reasonable and sound basis to an established industrial or commercial business for the purpose of providing working capital when it appears to the satisfaction of the Federal reserve bank that such business is unable to obtain requisite financial assistance on a reasonable basis from the usual sources. It seems clear, therefore, that it was not intended that the reserve banks should compete with local banks and other financing institutions by charging an interest rate on loans of this character which would be more favorable to the borrower than the prevailing rates in the community. Moreover, the greater risk and longer maturity ordinarily involved in an industrial loan are not present in the average bank loan and these factors alone might warrant a slight differential in the interest rate above that chargeable on loans which would be generally acceptable at banks.

"The rates of interest and discount charged by the respective Federal reserve banks are established from time to time

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"by each reserve bank with the approval of the Federal Reserve Board. The Federal Reserve Bank of Minneapolis on July 10, 1934, with the approval of the Federal Reserve Board, established a rate of 6% per annum on direct advances to established industrial or commercial businesses, and there has been no change in such rate since that date. Your criticism of the existing rate is the only one which has come to the attention of the Board, despite the fact that all other industrial and commercial businesses in the Minneapolis district which have obtained industrial loans from the Federal reserve bank are paying the same rate.

"In view of all the circumstances, there appears to be no basis for further action in the matter by the Federal Reserve Board."

Approved.

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

"Receipt is acknowledged of your letter of December 19, 1934 and inclosures regarding the application of Mr. Edwin W. Kemmerer under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as director of Princeton Bank and Trust Company, Princeton, New Jersey, and International Securities Corporation of America, Jersey City, New Jersey. It is noted that you and counsel for your Bank are of the opinion that that section is not applicable to the relationship in question.

"The corporation described itself as 'Investment Company - engaged in the business of investing and reinvesting its resources in securities'. The statistical information which has been furnished shows that purchases and sales of securities in the corporation's portfolio for the five years ending November 30, 1933 amounted to the following percentages of the total assets of the corporation for the respective years:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1929	69.21	63.25
1930	45.81	58.61
1931	32.91	23.93
1932	31.46	54.09
1933	37.08	32.99
Average for five years	47.38	48.83

"As of November 30, 1933 the securities in the corporation's portfolio had been held in the following proportions for the periods indicated:

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"Held less than 6 months	18.2%
Held 6 to 12 months	8.4%
Held 12 to 18 months	16.3%
Held 18 to 24 months	1.1%
Held 24 months and over	56.0%
	<u>100. %</u>

"The corporation has participated in certain underwriting transactions, in some cases for the purpose of acquiring securities at reduced prices for its portfolio and in some cases for the purpose of realizing the underwriter's profit, but in no case for the purpose of sale or distribution of securities. The commissions received from such transactions constituted less than one percent of the gross profits received by the corporation during the five years ending November 30, 1933.

"It also appears that none of the shares or other securities of the corporation are being sold or distributed at the present time and none have been sold during the past three years, excepting the sale in 1931 of \$7,000. of its debentures which had previously been repurchased.

"Upon the basis of the foregoing information, the Board is of the opinion that section 32 of the Banking Act of 1933 is not applicable to the relationship referred to in the first paragraph of your letter."

Approved.

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

"Receipt is acknowledged of your letter of December 19, 1934, regarding the request of William Darling as to the applicability of section 32 of the Banking Act of 1933 to his service as officer and director of The First National Bank and Trust Company of Summit and as director of First Securities Corporation, both of Summit, New Jersey. It is noted that you and counsel for your bank are of the opinion that section 32 is not applicable to the relationships in question.

"It appears from the information submitted that the First Securities Corporation buys and sells securities for its own account only, and has never had any participation in any transaction involving the issue, underwriting and distribution of securities other than its own.

"It also appears that, although the turnover in the corporation's portfolio during the years 1928 and 1929 was relatively large, there were almost no purchases and sales of securities in its portfolio from January 1, 1931 until the date on which the information was submitted to you in October,

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"1934, and that, consequently, over 99 per cent of the securities in the corporation's portfolio as of December 31, 1932 had been held for more than two years.

"It further appears that the corporation has not issued or sold any of its own shares or other securities during the past three years and that it has not repurchased or redeemed any of such shares or other securities during the past three years.

"On the basis of the above information, the Board is of the opinion that section 32 of the Banking Act of 1933 is not applicable to the relationships referred to in the first paragraph of this letter."

Approved.

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

"Receipt is acknowledged of your letter of December 24, 1934 regarding the application of Mr. John Foster Dulles under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as a trustee of The Bank of New York and Trust Company, New York, New York, and as director and member of the executive committee of Standard Investing Corporation. It is noted that you and counsel for your Bank are of the opinion that section 32 is not applicable to the relationship in question.

"It appears that the corporation 'is engaged in the business of holding for income and appreciation the securities of other corporations', and that, except for one small underwriting in 1931, it has never engaged in underwriting or distributing securities.

"The statistical information which has been submitted shows that purchases and sales of securities in the corporation's portfolio for the period from March 1, 1931 to December 31, 1933 amounted to the following percentages of the total assets of the corporation for the years indicated:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1931*	40.8*	45.6*
1932	38.8	43.1
1933	35.8	35.7
Average per year	40.8	44.3

* Ten months

"It appears that as of December 31, 1933, the securities in the corporation's portfolio had been held in the following proportions for the periods indicated:

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"Held less than 6 months	9.9%
Held 6 to 12 months	30.9%
Held 12 to 18 months	18.9%
Held 18 to 24 months	12.0%
Held 24 months and over	28.3%
	<u>100. %</u>

"It further appears that the shares of the corporation were sold in 1927 and 1929; that additional shares were issued in 1930 in exchange for stock of another corporation, and that, except for very small amounts of shares issued from time to time in exchange for shares of that other corporation, no securities of Standard Investing Corporation have been sold or issued during the past three years.

"Upon the basis of the foregoing information, the Board is of the opinion that section 32 of the Banking Act of 1933 is not applicable to the relationship referred to in the first paragraph of this letter."

Approved.

Thereupon the meeting adjourned.

Chesler M. Miller
Secretary.

Approved:

W. C. Miller
Governor.