

A meeting of the Federal Reserve Board was held in Washington on Saturday, January 12, 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 11, 1935, from Mr. Newton, Chairman of the Federal Reserve Bank of Atlanta, stating that the board of directors of the bank, at its meeting on that date, voted to establish a rediscount rate of 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; a rate of 2% on Government securities under repurchase agreement, and a rate of 4% on advances to member banks under section 10(b) of the Federal Reserve Act, as amended. The reply stated that the Board approved for the Federal Reserve Bank of Atlanta a rediscount rate of 2%, effective January 14, 1935, together with a rate of 2% on Government securities under repurchase agreement, and 4% per annum on advances to member banks under section 10(b) of the Federal Reserve Act, as amended.

Approved.

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Letter dated January 10, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated January 10, 1935, from Mr. Brown, Deputy Chairman of the Federal Reserve Bank of Kansas City, and January 11, 1935, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, all advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated January 7, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment of Miss Jane Wenger as a clerk in the division, with salary at the rate of \$120 per month, effective as of the date on which she enters upon the performance of her duties.

Approved.

Letter to the board of directors of "The Brewster Banking Company", Brewster, Ohio, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland.

Approved.

Letter dated January 10, 1935, approved by four members of the Board, to the board of directors of the "Nebraska State Bank of Valentine, Nebraska", Valentine, Nebraska, stating that, subject to

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the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved.

In connection with the above, there was also presented a letter dated January 10, 1935, approved by four members of the Board, to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, inclosing a general voting permit issued by the Board under the provisions of section 5144 of the Revised Statutes of the United States, entitling the "Bankers Bond & Share Company", Omaha, Nebraska, to vote the shares of stock which it owns or controls of the "Nebraska State Bank of Valentine, Nebraska", and authorizing Mr. McAdams to deliver such voting permit to the Bankers Bond & Share Company after the Nebraska State Bank of Valentine, Nebraska, has accepted the conditions of membership which the Board has prescribed for it.

Approved.

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

"Reference is made to your letter of December 17, 1934, relative to the Board's letter of October 24, 1934, regarding the report of examination of the Federal Reserve Bank of Atlanta as of May 26, 1934.

"It is noted that the Reserve Bank has been unsuccessful in its attempt to secure authority from the Treasury Department for certain commercial banks in New York to hold, in conflict

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"with the provisions of Treasury Circular No. 92, United States Government securities pledged by various banks in the Sixth district as collateral to secure War Loan deposit accounts. The Board feels that the Reserve Bank, as Fiscal Agent, should adhere strictly to the instructions of the Treasury Department and that unless definite authority to proceed otherwise is obtained from the Treasury Department, securities accepted as collateral to War Loan deposits should be deposited with the Federal Reserve Bank (or branch) in accordance with the provisions of Treasury Department Circular No. 92. It will be appreciated if you will advise of the action the Reserve Bank contemplates taking to bring its procedure in this connection in conformity with the instructions of the Treasury Department.

"No comment was made in your letter of December 17, 1934, relative to the inquiry contained in the Board's letter of October 24, 1934, regarding the question raised by the examiner in connection with the management and general operating efficiency of the Birmingham branch. It will be appreciated if you will advise the Board as to the action which has been or will be taken in the matter.

"The Board has noted your comments relative to the other matters mentioned in its letter of October 24, 1934."

Approved.

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

"Receipt is acknowledged of your supplemental memorandum of January 8, 1935, with reference to the proposed reduction in the common capital stock of 'The First National Bank of Bellerose', Bellerose, New York, from \$100,000 to \$25,000 and the sale of \$100,000 of preferred stock to the Reconstruction Finance Corporation and/or others, which was approved by the Federal Reserve Board on September 4, 1934.

"You advise that the bank now proposes to amend its original plan of recapitalization to provide for the sale locally of \$75,000 of preferred stock instead of \$100,000, as formerly contemplated.

"In accordance with your recommendation, the Board amends its previous approval to provide for the sale of \$75,000 of preferred stock with the understanding that, prior to the reduction of the common capital a \$10,000 note of Director Mann, classified as doubtful by your examiner, shall be paid in cash or adequately secured and that the other provisions of the plan as originally approved, remain unchanged, all as set

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"forth in your supplemental memorandum of January 8, 1935."

Approved.

Letter dated January 11, 1935, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of your memorandum of January 8, 1935, with reference to the proposed reduction in the common capital stock of 'The First National Bank of Carrollton', Carrollton, Missouri, from \$100,000 to \$50,000, which reduction was approved by the Board on December 20, 1934, pursuant to a plan which provided, among other things, for the sale of \$25,000 of preferred stock to the Reconstruction Finance Corporation.

"You advise that the Reconstruction Finance Corporation has agreed to purchase only \$15,000 of preferred stock of this bank and recommend that the bank be permitted to reduce its common capital as originally proposed, but that the plan as approved be amended to permit the amount of preferred stock to be sold to the Reconstruction Finance Corporation to be reduced from \$25,000 to \$15,000.

"In accordance with your recommendation the Board approves the amended plan providing for the sale of \$15,000 of preferred stock, as set forth in your memorandum of January 8, 1935, with the understanding that the other provisions of the plan remain unchanged."

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 Wyoming National Bank of Casper', Casper, Wyoming, from \$250,000 to \$150,000, 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 and that the proceeds of the reduction shall be applied toward the elimination of estimated losses and other substandard assets, all as set forth in your memorandum of January 4, 1935.

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"Although your recommendation provides only for the use of the \$100,000 of released capital in eliminating unsatisfactory assets, it is assumed that your office will require the elimination, at least, of all estimated losses as classified by your examiner in the report of examination as of November 19, 1934.

"This approval supersedes the Board's approval on November 27, 1933, of a previous plan of capital reduction."

Approved.

Letter dated January 10, 1935, approved by five 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 dated September 29, 1934, regarding the application of 'The Coudersport Trust Company', Coudersport, Pennsylvania, for a permit under the provisions of section 5144 of the Revised Statutes of the United States to vote the stock which it owns or controls of 'The First National Bank of Coudersport', Coudersport, Pennsylvania. Inclosed with your letter was a copy of a letter dated September 17, 1934, from Mr. E. C. Hill, Assistant Federal Reserve Agent at Philadelphia, to Mr. John F. Stone, president of the Coudersport Trust Company, and a copy of a letter dated September 26, 1934, from Mr. Stone to Mr. Hill.

"You state in your letter that the management of the trust company does not appear sufficiently interested in the obtaining of a limited voting permit to make any definite statement as to what it can or will do by way of improving the capital position of the trust company, and that the State Banking Department will not render you any assistance in the matter. You also state that you feel that further efforts on your part to bring about the requested action will be futile unless definite pressure of some kind can be applied. In this connection you suggest that the Federal Deposit Insurance Corporation may be able to force compliance with the condition upon which the trust company was admitted to the Temporary Federal Deposit Insurance Corporation fund, namely, that it sell \$100,000 of preferred stock to the Reconstruction Finance Corporation. For your confidential information, a review of the files of the Federal Deposit Insurance Corporation indicates that such corporation has taken steps to obtain compliance with this condition, and it is assumed that further steps will be taken in this regard. It appears, however, that the matter of obtaining compliance with such condition is one over which the Board has no control.

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"If the trust company shows any inclination to obtain a voting permit upon the conditions stated in Mr. Hill's letter to Mr. Stone dated September 17, 1934, please advise the Board of such fact and furnish your recommendation as to the action which should be taken."

Approved.

Letter to Mr. McKay, Deputy Governor of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of December 6, 1934, stating that you have been advised that at the joint meeting of the Federal Advisory Council and the Federal Reserve Board on September 18, 1934, it was informally agreed that the matter of safekeeping of Government securities by the Federal reserve banks for member banks should be left to the directors of each Federal reserve bank, and that you assume that this modifies, at least to some extent, the Board's letter of June 6, 1934, (X-7907), on the subject of safekeeping of securities by Federal Reserve banks.

"While this question was brought to the attention of the Board by one of the members of the Council at its September meeting, no formal recommendation was submitted at that time by the Council. It was stated that the matter was one which had been made the subject of a survey of the practices and views of the Federal reserve banks, that all the banks were fully informed, and the suggestion was made that the question be taken up with the board of directors of the particular Federal reserve bank concerned. This suggestion was accepted by the member who raised the question and no other action was taken on the matter by the Board."

Approved.

Telegram dated January 11, 1935, approved by four members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Your telegram. Please advise when you feel you will be in position to relinquish your duties as Class C director and Chairman and Federal Reserve Agent."

Approved.

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Telegram dated January 11, 1935, approved by four members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"RETEL 6th, Board sees no objection to return of stock payment to organizers of First National Bank in Athens, Athens, Texas, provided counsel of your bank approves payment. We understand that Comptroller's office has not received advice of abandonment of organization plans."

Approved.

Telegram dated January 11, 1935, approved by four members of the Board, to Mr. Worthington, Deputy Governor at the Federal Reserve Bank of Kansas City, reading as follows:

"Form of earnings, expense and profit and loss statement inclosed with your letter of January 8 satisfactory. Suggest that deferred availability items referred to as deposits of items representing uncollected funds be not included in deposits as they are not so included in condition statements published weekly."

Approved.

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

"Reference is made to Mr. McRae's letter of October 22, 1934, regarding the application of Mr. Henry J. Wheelwright under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as an officer and director of The Merchants National Bank of Bangor and the Columbia Investment Company, both of Bangor, Maine. Mr. McRae inclosed a copy of a letter dated October 19, 1934, from Mr. Wheelwright, containing additional information regarding the business of Columbia Investment Company.

"As you know, there has been considerable correspondence regarding this application for the purpose of ascertaining the exact nature of the business of Columbia Investment Company. The company apparently acts as dealer, broker, and investment counsellor. In a letter to the Comptroller of the Currency, dated August 10, 1934, the president of the national bank stated that 'fully three-fourths of the business of the

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"Columbia Investment Company comes from investment counsellor activities, and the direct sales represent a much smaller part'. However, the subsequent correspondence has indicated that the investment counsellor activities include transactions in which the company also acts as dealer or as broker, receiving a single fee or commission for the entire transaction. Mr. Wheelwright has stated that he finds it difficult to separate and allocate the income of the company to the three types of business in which the company appears to be engaged, although he has expressed a sincere desire to furnish the required information.

"However, in his letter of October 19, 1934, Mr. Wheelwright has furnished figures showing that, for the year ending September 18, 1933, the company derived profits from participations in syndicates and selling groups and from selling concessions amounting to \$5,678.75, and for the year ending September 18, 1934, profits from these sources of \$7,871.41. For the former year it derived profits of \$5001.32 from the sale of securities belonging to it, and for the latter year profits of \$1030.18 from that source.

"As you know, the Board believes that it was the intent of the Congress in enacting section 32 of the Banking Act of 1933 to terminate relationships of certain types between member banks and dealers in securities because of the possible undesirable effect which such relationships might have upon the member banks' investment policies and its policies in dealing with its customers. The Board has therefore taken the position that it may not properly grant permits covering relationships which are actually of the kind referred to in that section but that its authority to issue permits should be exercised only in exceptional cases, for example, those which fall within the literal terms of the statute but which are actually not within its intendment.

"Of course, the denial of an application under those circumstances cannot be taken as implying that the particular relationship has actually been characterized by any of the undesirable practices which led the Congress to enact section 32, but signifies only that the Board is of the opinion that the particular relationship is of a kind to which the Congress referred in section 32 and which the Board believes the Congress desired to terminate in order to avoid the dangers which it had in mind in enacting that section.

"The information which has been submitted in connection with Mr. Wheelwright's application indicates that the profits derived by Columbia Investment Company from participations in syndicates and selling groups, from selling concessions, and from the sale of securities owned by the company, are

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"substantial, and although the Board does not have definite information as to the total income of the company, it appears that such transactions comprise one of its primary activities.

"For the reasons discussed earlier in this letter, the Board does not feel that under these circumstances it may properly issue a permit covering the relationship described in Mr. Wheelwright's application.

"In the event that Mr. Wheelwright desires to submit further facts or arguments in support of his application, the Board, as you know, is prepared to give them careful consideration. However, any additional facts or arguments should be submitted to you, in writing, as promptly as possible; and, in the event that he does not desire to submit any further facts or arguments, he should be requested to notify you as to what steps he takes to bring his relationships into conformity with the provisions of the law."

Approved.

Letter dated January 11, 1935, approved by four 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. William M. Barrett under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as director of Irving Trust Company and as officer of The Adams Express Company, both of New York, New York, and to the additional data in connection therewith which was forwarded with your letter of December 20, 1934. 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 Adams Express Company is primarily engaged in the business of investing its funds for its own account. Purchases and sales of securities in its portfolio constituted the following percentages of total assets for the years indicated:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1929	70.03	62.29
1930	70.91	42.34
1931	6.76	6.90
1932	3.28	2.10
1933	8.04	8.80

"The securities in the corporation's portfolio as of December 31, 1933 consisted 97.62 per cent of stocks and 2.33 per

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"cent of bonds, and, as of that date, had been held in the following proportions for the periods indicated:

	<u>Stocks</u>	<u>Bonds</u>
Held for less than 6 months	12.80	51.61
Held between 6 and 12 months	4.77	1.29
Held between 12 and 18 months	3.55	3.42
Held between 18 and 24 months	5.23	5.35
Held 24 months and over	73.65	38.33
	<u>100.00</u>	<u>100.00</u>

"It is stated that the company 'is an investor and does not engage ordinarily in transactions involving the issue, underwriting and distribution of securities * * *. Since 1930 the Company has participated in only one underwriting'. This transaction took place in 1933 and the company received therefrom a commission equal to approximately 2.7 per cent of the total gross income of the company for that year.

"During the past three years, purchases and sales by the company of its own shares and other securities were negligible in amount, except that it purchased an average of about 8 per cent per year of its outstanding preferred stock in anticipation of sinking fund requirements which provide for the retirement of approximately that amount of preferred shares each year. Purchases and sales of its common stock were made only in connection with the conversion of scrip for fractional shares.

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

Approved.

Letter dated January 11, 1935, approved by four 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 request for a ruling contained in your letter of December 18, 1934 in connection with the application of Mr. Lindsay Bradford under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as officer and director of City Bank Farmers Trust Company, New York, New York, as director of Central Farmers Trust Company, West Palm Beach, Florida, and as director of Steuben Securities Corporation, Newark, 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.

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"It appears from the information submitted that Steuben Securities Corporation is a family investment corporation engaged in the business of investing its own funds, and that it has never sold any of its own shares or other securities to the public.

"The information which has been submitted shows that purchases and sales of securities in its portfolio for the four years ending December 31, 1933 constituted the following percentages of its total assets:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1930	91.4	90.5
1931	30.0	26.0
1932	1.7	4.7
1933	43.4	35.0
Average	42.4	39.7

"It also 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:

Held less than 6 months	10.7%
Held for 6 months	15.6%
Held 24 months or over	73.7%
	<u>100. %</u>

"Upon the basis of the information which has been submitted, 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 dated January 10, 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 your letter of December 17, 1934 and the inclosed additional information regarding the request of Mr. Prentiss N. Gray for a ruling as to the applicability of section 32 of the Banking Act of 1933 to his service as officer and director of J. Henry Schroder Trust Company, New York, New York, and as director of European Mortgage and Investment Corporation.

"In its letter of November 2, 1934, the Board stated that, on the basis of the information which had been submitted, it did not appear that the corporation was 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the meaning of section 32, but that, in this connection, no information had been submitted regarding the activities of

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"the corporation in purchasing, selling and distributing its own shares and other securities.

"The additional information submitted with your letter of December 17, 1934 relates to the latter question. It appears that the stock of the corporation was never offered or sold to the public, and that its bonds were sold at various times between October 1925 and June 1928. No shares or other securities of the corporation are being sold or distributed at the present time, and none have been sold or distributed during the past three years. In this connection, it is noted that the corporation was in receivership from March 1933 to July 1934, at which time the former receiver was appointed trustee in bankruptcy on petition of the corporation for reorganization under section 77B of the Bankruptcy Act; and it is assumed that the corporation is still in process of reorganization. The corporation repurchased approximately 3 per cent of its outstanding bonds prior to December 31, 1931, but, with this exception, it has not repurchased any of its securities.

"Upon the basis of the foregoing information it appears that the corporation is not actively engaged in purchasing, selling, or distributing its own shares or other securities, and the Board therefore believes that section 32 of the Banking Act of 1933 is not now applicable to the relationships described in the first paragraph of this letter."

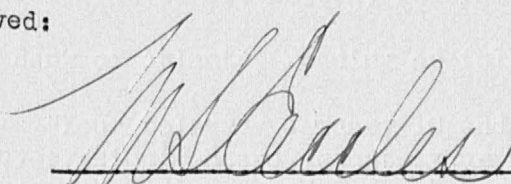
Approved.

Thereupon the meeting adjourned.



Secretary.

Approved:



Governor.