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A meeting of the Federal Reserve Board was held in Washington on Thursday, February 14, 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:

Telegram from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, advising that, at the meeting of the board of directors today, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated February 11, 1935, from Mr. Paulger, Chief of the Division of Examinations, recommending that Mr. R. Thornton Snow, a clerk in the division, be transferred from the office to the road force with the title of Assistant Federal Reserve Examiner, with headquarters in Washington, D. C., with salary at the rate of \$1,800 per annum, effective as at the close of business on February 14, 1935.

Mr. Snow was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board, was designated as an Assistant Federal Reserve Examiner, with salary

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at the rate of \$1,800 per annum, and his transfer to the road force was approved, all effective as of the close of business on February 14, 1935.

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

"The Federal Reserve Board has received your letters of February 8, 1935, and approves the reappointment by the board of directors of the Federal Reserve Bank of Philadelphia of Messrs. J. E. Butterworth, John S. Chipman, H. W. Prentis, Jr., and Benjamin F. Mechling as members of the Industrial Advisory Committee for the Third Federal Reserve District, each for a term of one year from March 1, 1935. It is assumed that each of these gentlemen is still actively engaged in some industrial pursuit within the Third Federal Reserve District.

"The Board also approves the appointment of Mr. John T. McDade as a member of the Industrial Advisory Committee for your district for a term of one year from March 1, 1935, to succeed Mr. Charles E. Brinley.

"It will be appreciated if you will advise whether Mr. Butterworth will continue as Chairman of the committee."

Approved.

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

"The Federal Reserve Board has received your letter of February 8, 1935, and approves the reappointment by the board of directors of the Federal Reserve Bank of Atlanta of Messrs. A. R. Forsyth, A. M. Lockett, I. C. Milner, Wm. A. Parker, and John E. Sanford as members of the Industrial Advisory Committee for the Sixth Federal Reserve District, each for a term of one year from March 1, 1935.

"It will be appreciated if you will advise whether Messrs. Sanford and Parker will continue as Chairman and Vice Chairman, respectively, of the Industrial Advisory Committee for your district."

Approved.

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

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"The Federal Reserve Board has received your letter of February 8, 1935, and approves the reappointment by the board of directors of the Federal Reserve Bank of St. Louis of Messrs. Wm. K. Norris, Jacob Van Dyke, Maurice Weil, Henry S. Gray, and M. E. Finch as members of the Industrial Advisory Committee for the Eighth Federal Reserve District, each for a term of one year from March 1, 1935.

"It appears from your letter that Mr. Norris will continue as Chairman of the committee, and it will be appreciated if you will advise whether Mr. Van Dyke will serve as Vice Chairman."

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 Otselic Valley National Bank of South Otselic', South Otselic, New York, from \$100,000 to \$40,000, pursuant to a plan which provides that the released capital, together with a portion of the bank's surplus or undivided profits accounts, shall be used to eliminate all estimated losses and depreciation in securities in the lower grades, all as set forth in your memorandum of September 28, 1934, and supplemental memorandum of February 5, 1935.

"This approval supersedes the Board's approval dated October 12, 1934, of a previous plan of capital reduction."

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 Burlington County National Bank of Medford', Medford, New Jersey, from \$100,000 to \$50,000, pursuant to an amended plan which provides that the bank's capital shall be increased by the sale of \$50,000 of preferred stock to local interests and that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, and provides also for the retention of directors' guaranties in the face amount of \$25,000, such guaranties to remain in full force and effect until the bank's capital is restored, all as set forth in your

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"letters of October 2, 1934, and January 31, 1935.

"This approval supersedes the Board's approvals of June 29, 1934, and October 10, 1934, of the original plan of capital reduction and an amendment thereto, which were submitted to the Board in your letters of June 12, 1934, and October 2, 1934, respectively."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Batavia', Batavia, Ohio, from \$80,000 to \$50,000, pursuant to a plan which provides that the released capital shall be used to eliminate losses and the least desirable assets in the bank, all as set forth in your supplemental memorandum of January 31, 1935.

"In reviewing this case it has been noted that the report of examination as of December 20, 1934, reflects an improvement in the condition of the bank as compared with the condition reflected by the report of examination as of June 25, 1934, and that upon completion of the plan the adjusted capital of the bank will be in a satisfactory ratio to deposit liability. However, consideration has also been given to the fact that the amount of the proposed reduction, although approximately sufficient to eliminate the estimated losses as shown in your examiner's report as of December 20, 1934, would not place the bank in satisfactory condition, as the depreciation in investment securities unprovided for, if considered as loss, would impair the remaining common capital. In addition, the bank has \$10,655 of assets classed as doubtful, and an investment in banking premises, furniture and fixtures and other real estate in excess of its sound capital structure. It is assumed, however, that you have these conditions in mind and that whenever it is feasible to do so you will obtain such further corrections as may be practicable."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Centerville', Centerville, South Dakota, from \$100,000 to \$50,000 pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$75,000 of preferred stock to the Reconstruction Finance

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"Corporation, and that the released capital, together with a portion of the bank's surplus and undivided profits accounts and a voluntary contribution of \$50,000 to be realized through a resale of the bank's present common capital stock, shall be used to eliminate approximately \$112,000 of unsatisfactory assets which are to remain the property of the bank, all as set forth in your memorandum of January 24, 1935.

"In considering the plan under which the reduction in common capital stock is to be effected, it has been noted that your examiner severely criticized the directorate and active management of the subject bank. It is assumed, however, that this matter is receiving the attention of your office."

Approved.

Letter to Mr. Burke, Acting Chairman of the Federal Reserve Bank of Cleveland, stating that his letter of February 8, 1935, and the accompanying inclosures, in regard to the dismissal by the Federal Reserve Bank of Cleveland of Mr. Francis Lee Carr, a former employee of the bank, were being brought to the attention of the members of the Board, and that the thoroughness with which Mr. Burke has gone into the matter and the very complete information furnished to the Board are very much appreciated.

Approved.

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

"The Federal Reserve Board has received your letter of February 8, 1935, and notes without objection that it is planned to hold the next regular meeting of the board of directors of the Federal Reserve Bank of Atlanta at your Jacksonville branch."

Approved.

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

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"Mr. Szymczak has asked me to bring to the attention of the members of the Board your letter of February 9 in reply to the Board's letter of January 21, X-9100. The Board has noted with interest the information that you have furnished in regard to the contacts of your bank's representatives with member and nonmember banks in your district. You discussed particularly the activities which involve giving publicity to industrial loans but it is not clear from your letter whether the other subjects mentioned on page 2 of the Board's letter of January 16 to Governor Schaller are covered by the instructions to your representatives who call upon banks in the district or in the reports which they make to you currently. It is assumed, however, that when you advise the Board further regarding their activities you will include in your report information obtained and the conclusions drawn from such information regarding the other subjects mentioned."

Approved.

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

"This refers to your letter of February 5, 1935, with regard to the Board's letter of January 29, 1935 (X-9108-a), in which the Board expressed the view that a member bank may continue until maturity to pay interest upon a time certificate of deposit having a definite maturity and issued in good faith prior to December 18, 1934, and in force on that date, at the rate of 3 per cent per annum whether or not such a certificate contains a legend to the effect that the rate of interest payable thereunder is subject to change by the bank to such extent as may be necessary to comply with requirements of the Federal Reserve Board.

"You refer to the Board's letter of September 29, 1933 (X-7626), in which it was stated that time deposit contracts made by member banks since the enactment of the Banking Act of 1933 must be considered to have been made in contemplation of the provisions of that Act and with notice that the rate of interest provided in such contracts would be subject to change to conform to the rate to be prescribed by the Board; and you state that it seems to you that in certain circumstances the issuing bank may be required to effect a reduction in the rate of interest paid under a certificate of the kind above described so as to bring it into conformity with the provisions of Regulation Q, as amended, inasmuch as such action may be taken consistently with its contractual obligations, especially in cases where the certificates bear the legend above mentioned.

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"Such certificates of deposit, however, whether or not they bear the legend referred to, would appear to be subject to change only when necessary to conform to requirements of the Federal Reserve Board with respect to the rate of interest payable; and, under the terms of the Board's amended regulation, interest may be paid in accordance with contracts entered into in good faith prior to December 18, 1934, which may not legally be terminated or modified by the bank at its option or without liability. It would seem, therefore, that a member bank might not terminate any such contract at its option or without liability unless and until the Board so requires. The amended regulation is not believed to make such a requirement with respect to certificates of the kind mentioned, nor was it intended to do so. It was the intention of the Board in adopting the amendments to its Regulation Q that interest might be paid until maturity on certificates of deposit of the kind described, lawfully issued prior to December 18, 1934, in accordance with the terms of such certificates. To adopt the opposite view would be to give little, if any, practical effect to the provision of the regulation relating to certificates entered into prior to that date.

"Although it is believed that the Board, if it had deemed it advisable to do so, might lawfully have provided in its regulation that the rate of interest payable on such certificates should not exceed  $2\frac{1}{2}$  per cent per annum for the period subsequent to January 31, 1935, it was considered advisable expressly to except certificates of the kind described from the reduction in the rate. It is believed that this exception will tend to eliminate friction and misunderstanding between banks and their depositors with reference to the rate of interest payable after January 31, 1935, on contracts existing prior to notice of the amendments to Regulation Q."

Approved.

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

"This refers to your letter of December 19, 1934, in reply to the Board's letter of December 13, 1934, regarding the classification of certain obligations as 'bad debts' under Section 5204 of the United States Revised Statutes.

"It is understood, of course, that if a note or a bond is well secured and in the process of collection, your office would not classify it as a 'bad debt' in any event. So far as bonds are concerned, it is understood that a bond is not classified as a statutory bad debt unless the actual maturity

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"has been reached or the bond has matured according to its terms through some default and, in addition, the interest thereon is past due and unpaid for a period of six months; but that all or part of this six months' period might have run before the bond matured.

"In connection with notes payable on demand, it is understood that, in the absence of State law fixing the date of maturity, it is held that such notes fall due within a reasonable time which is held, further, to be the time for which the bank usually draws its paper, and ordinarily not over six months; and that such notes are not classified as statutory bad debts until, in addition to having matured as outlined above, the payment of interest has become due in accordance with the terms of the instrument or the custom of the bank and such interest has been unpaid for a period of six months from the time when payment of such interest thus became due. However, all or part of this last mentioned six months' period might have run before the note matured. For example, if a bank, following its custom of presenting bills for interest quarterly, presents for payment on April 1st, a bill for interest accrued to that date on a demand note dated January 1st which does not expressly provide for interest payment dates, and such interest remains past due and unpaid, the note would not become a statutory bad debt until after October 1st, and would not then be so classified if amply secured and in process of collection.

"It is understood, further, that ample security may consist of good collateral or indorsements which can be readily realized upon to the full extent of the debt and that an obligation is not considered 'in process of collection' merely because a demand for payment has been made without further steps to enforce collection in accordance with the terms of the instrument or by due process of law.

"Inasmuch as the information furnished is to be transmitted to the Federal Reserve Agent at Philadelphia and in view of the several factors which are easily susceptible of misunderstanding, your advice as to the correctness of the understanding expressed in this letter will be appreciated."

Approved.

Letter to an applicant for a permit under the Clayton Act advising of the issuance by the Board of a permit as follows:

Mr. E. B. Beall, to serve at the same time as a director and officer of The Commercial Savings Bank Company, Galion, Ohio, and as a director of the First National Bank in Crestline,

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Crestline, Ohio, for the period ending January 14, 1936.

Approved.

There were then presented the following applications for changes in stock of Federal reserve banks:

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>
<u>District No. 4.</u>	
The First National Bank of Georgetown, Georgetown, Kentucky	1
The Huntington National Bank of Columbus, Columbus, Ohio	30
The Third National Bank and Trust Company of Dayton, Dayton, Ohio	9
The National Bank of Fremont, Fremont, Ohio	2
The Old Phoenix National Bank of Medina, Medina, Ohio	6
The Peoples National Bank of New Lexington, New Lexington, Ohio	2
The National Bank of Orrville, Orrville, Ohio	2
The Citizens National Bank of Bentleyville, Bentleyville, Pennsylvania	3
The Crafton National Bank, Crafton, Pennsylvania	2
The Union National Bank of New Brighton, New Brighton, Pennsylvania	4
The Forbes National Bank of Pittsburgh, Pittsburgh, Pennsylvania	60
First National Bank in Sharon, Sharon, Pennsylvania	8
The Peoples National Bank of West Alexander, West Alexander, Pennsylvania	6
The First National Bank at Wilkinsburg, Wilkinsburg, Pennsylvania	9
The Second National Bank of Ashland, Ashland, Kentucky	90
The Georgetown National Bank, Georgetown, Kentucky	3
Central United National Bank of Cleveland, Cleveland, Ohio	18
The Merchants National Bank & Trust Company of Dayton, Dayton, Ohio	135
The Second National Bank of Hamilton, Hamilton, Ohio	3

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<u>Applications for ADDITIONAL Stock: (Continued)</u>		<u>Shares</u>	
<u>District No. 4. (Continued)</u>			
The Kent National Bank, Kent, Ohio		45	
The Brown County National Bank of Mt. Orab, Mt. Orab, Ohio		12	
The National Bank of Corry, Corry, Pennsylvania		15	
The Manor National Bank, Manor, Pennsylvania		15	
The Logan National Bank and Trust Company of New Kensington, New Kensington, Pennsylvania		60	
The Sheffield National Bank, Sheffield, Pennsylvania		12	
The National Bank of Springdale, Springdale, Pennsylvania		30	
National Bank of Union City, Union City, Pennsylvania		1	
The Warren National Bank, Warren, Pennsylvania		60	643
<u>District No. 7.</u>			
Danforth Banking Company, Washington, Illinois		3	
The Merchants Trust and Savings Company of Muncie, Muncie, Indiana		11	14
<u>District No. 8.</u>			
Fordyce Bank & Trust Company, Fordyce, Arkansas		3	
United Bank of Farmington, Farmington, Missouri		3	6
		<u>Total</u>	<u>663</u>
<u>Applications for SURRENDER of Stock:</u>			
<u>District No. 4.</u>			
First National Bank in St. Marys, St. Marys, Ohio		44	
The First National Bank of Indian Head, Indian Head, Pennsylvania		24	
The Toledo Trust Company, Toledo, Ohio		1,200	1,268

Approved.

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Thereupon the meeting adjourned.

Chester Merrill  
Secretary.

Approved:

W. C. C. C.  
Governor.