

A meeting of the Federal Reserve Board was held in Washington on Monday, March 11, 1935, at 12:30 p. m.

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

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

The Board acted upon the following matters:

Telegram dated March 9, 1935, from Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, advising that, at the 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.

Telegram dated March 9, 1935, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Mr. Young's letter March 6. Board approves appointment of Carl Weiskopf as assistant examiner in Federal Reserve Agent's department your bank at salary rate of \$1800 per annum. Please advise effective date. It is assumed, of course, that Mr. Weiskopf has no outside business connections which would affect his services as assistant examiner, and definite information in this connection is requested."

Approved.

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

"The Federal Reserve Board notes from your telegram of March 7, 1935, that the board of directors of your bank, at

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"its meeting on that date, appointed Mr. J. W. Maxwell, Chairman of the National Bank of Commerce, Seattle, Washington, as a director of the Seattle branch of the Federal Reserve Bank of San Francisco for the unexpired portion of the term ending December 31, 1936, to succeed Mr. M. F. Backus, deceased."

Approved.

Memorandum dated March 2, 1935, from the Committee on Salaries and Expenditures, submitting a letter dated February 25 from Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, which requested a reduction in the salary range for the position of "Clerk" in the Auditing Department of the bank from \$1601-\$1900 to \$901-\$1200. The Committee recommended that the proposed reduction be approved.

Approved.

Letter to "The Atglen National Bank", Atglen, Pennsylvania, reading as follows:

"This refers to the resolution adopted on July 17, 1934, by the board of directors of your bank signifying the bank's desire to surrender its right to act as trustee, administrator and executor, as authorized by the Federal Reserve Board.

"The Federal Reserve Board understands that your bank has never exercised its right to act in the trust capacities enumerated above, and that it has not assumed any duties in such capacities. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to act as trustee, executor or administrator. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Federal Reserve Board to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Federal Reserve Board made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers covered by section 11(k) of the Federal Reserve Act except with the permission of the Federal

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"Reserve Board."

Approved.

Letter to "The First National Bank of Blooming Prairie,"
Blooming Prairie, Minnesota, reading as follows:

"This refers to the resolution adopted on May 5, 1934, by the board of directors of your bank signifying the bank's desire to surrender its right to act as trustee, executor, administrator and guardian of estates, as authorized by the Federal Reserve Board.

"The Federal Reserve Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k), of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Federal Reserve Board to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Federal Reserve Board made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers covered by section 11(k) of the Federal Reserve Act except with the permission of the Federal Reserve Board."

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 State Road National Bank of Highland Park', Upper Darby, Pennsylvania, from \$100,000 to \$60,000, pursuant to a plan which provides for the sale of \$50,000 of preferred stock to the Reconstruction Finance Corporation

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"at par, and \$40,000 of new common stock to local interests at a premium of \$10,000, such premium to be credited to surplus, and for the use of the released capital in eliminating a corresponding amount of unsatisfactory assets which are to remain the property of the bank, all as set forth in your letter of March 6, 1935.

"Although your recommendation provides only for the use of the \$40,000 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 of January 7, 1935.

"This approval supersedes the Board's approval dated May 1, 1934, of a previous plan of capital reduction."

Approved.

Telegram to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, authorizing him, subject to the conditions prescribed in the telegram, to issue a limited voting permit to the "Universal Corporation", Miami Beach, Florida, entitling such organization to vote the stock which it owns or controls in the "Mercantile National Bank of Miami Beach", Miami Beach, Florida, and "The First National Bank of Homestead", Homestead, Florida, for the purposes set forth in the telegram.

Approved.

Telegram dated March 9, 1935, approved by four members of the Board, to Mr. Burke, Deputy Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"Your telegram March 8. Board approves appointment of August H. Tuechter as fifth member Industrial Advisory Committee your district for unexpired portion of term ending February 28, 1936. It is understood that H. J. Pfiester, advice of whose appointment was contained in your letter February 8, is not actively engaged in some industrial pursuit within the Fourth District and that his appointment,

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"therefore, was not made effective."

Approved.

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

"Mr. Hamlin has brought to the attention of the members of the Board your letter of March 6 indicating that you plan to take about a month's vacation beginning the latter part of this month but stating that your plans are indefinite at present and the time of your departure will be determined largely by the condition of Governor Young's health.

"The Board has no objection to your taking the proposed vacation, it being assumed that you can be reached through the bank during your absence. However, it will be appreciated if you will advise the Board as to the date on which your vacation commences."

Approved.

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

"Reference is made to the report of examination of the 'Security-Peoples Trust Company', Erie, Pennsylvania, as of December 15, 1934; to the supplementary information submitted in connection therewith, particularly your letter of February 1, 1935, and Mr. Evans' letter of March 4, 1935, and to the report of examination of the trust department of the bank made by examiners for the Pennsylvania Department of Banking and transmitted by Mr. Evans under date of February 25, 1935.

"Although the Reconstruction Finance Corporation has purchased \$300,000 of preferred stock in the bank, the report of examination reflects a net sound capital of approximately \$219,000, after allowance for estimated losses, doubtful assets and depreciation in securities, as compared with deposits of \$10,322,000. The bank, moreover, has a heavy investment of \$779,000 in banking houses, furniture and fixtures, while its investment in other real estate amounts to \$269,000, and the examiner reports \$82,000 of real estate loans which are considered as potential other real estate. It is observed that efforts are being made further to strengthen the capital of the bank with the aid of the Reconstruction

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"Finance Corporation, and, in view of the urgent need for such strengthening as disclosed by the examination, it will be appreciated if you will continue your efforts in this connection.

"It is noted that the charge-offs requested by the State Banking Department in its letter of February 21, 1935, amounted to \$414,235, distributed as follows:

Assets appraised as loss	\$323,881
Depreciation on defaulted bonds	77,354
Portion of depreciation on nonincome producing stocks	<u>13,000</u>
	<u>\$414,235</u>

"Estimated losses as classified by your examiner in the joint examination as of December 15, 1934, amounted to \$613,637, distributed as follows:

Depreciation in defaulted bonds	\$115,313
" " stocks	58,119
" " Group 2 securities	<u>70,232</u>
	\$243,664
Estimated losses in other assets	<u>369,973</u>
	<u>\$613,637</u>

"According to the information submitted with Mr. Evans' letter of March 4, 1935, charge-offs made by the bank in compliance with the request of the State Banking Department amounted to \$160,535, after which the bank had undivided profits and reserves aggregating \$243,000. It appears, however, that the reserves referred to include specific reserves and that the charge-offs of \$160,535 included \$49,823 credited to specific reserves, which would apparently reduce by that amount the \$243,000 reported available for further charge-offs. In connection with the treatment of reserves, it has been noted that on the date of examination the bank had reserves of \$181,700 for contingencies, which included \$91,900 reserve for losses in specific loans and a reserve of \$55,600 for depreciation in securities and that such reserves apparently were not deducted from the respective asset accounts but were included in the reserves for contingencies as shown in the call report of condition as of December 31, 1934. You are familiar with the position of the Board, frequently expressed, that estimated losses and depreciation listed for elimination have not been properly eliminated by the setting up of reserves which are included with the bank's capital accounts in its published statements but that such reserves should be used either in making charge-offs of the estimated losses and depreciation or treated as valuation reserves and deducted from the assets against which allocated, showing only the net amount of the assets in the published statements. If any reserves for losses

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"are shown among the capital accounts, they should represent allocations of surplus or undivided profits to cover possible or potential losses or, in other words, represent true 'reserves for contingencies'.

"Mr. Evans advises that requests for further charge-offs have been deferred until the next examination, at which time it is contemplated that a program of recapitalization will have been accomplished. Since it appears that funds were available to make the eliminations requested by the Pennsylvania Department of Banking, it will be appreciated if you will advise as to the reasons why it was felt that the full amount of the charge-offs requested should not be made at this time.

"The report of examination indicates that it is the practice of the bank to make partial payments on certificates of deposit, which practice is criticized by the examiner as a violation of the Board's Regulation Q in that payments are made before the maturity of the certificates. Please advise what action, if any, has been taken by the bank to conform to the requirements of the regulation referred to.

"The report of examination of the trust department reflects the investment of trust funds in mortgages of certain directors and officers of the bank. As indicated by a condition which for some time has been prescribed for banks with trust departments admitted to membership in the System, the Board has taken the position that trust funds administered by the bank should not be invested in obligations of the bank's directors, officers, or their affiliations, or corporations affiliated with the bank. It will be appreciated if you will acquaint the bank with the Board's views in the matter and advise the Board of the action the bank has taken or will take with respect thereto.

"Please keep the Board informed as to improvements made in the condition of the bank and the progress made in strengthening the bank's capital."

Approved.

Letter to Mr. Awalt, Deputy Comptroller of the Currency, reading as follows:

"Reference is made to your memorandum dated February 11, 1935, regarding the letter from The First Farmers & Merchants National Bank, Troy, Alabama, dated January 30, 1935, in which the bank asked to be advised as to the legality, under the

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"provisions of the Banking Act of 1933, of certain loans to its affiliate, the First National Company, secured by automobile 'rental sales contracts.' In your memorandum you ask to be advised whether the Federal Reserve Board considers such 'rental sales contracts' as 'stocks, bonds, debentures, or other such obligations', within the provision of the second paragraph of section 23A of the Federal Reserve Act requiring loans to affiliates to be secured.

"You refer to the Board's interpretation contained in its mimeographed letter dated August 7, 1933 (X-7540), to the effect that real estate mortgages arising out of the ordinary type of direct loan on real estate are not 'stocks, bonds, debentures, or other such obligations' within the above provision of section 23A of the Federal Reserve Act. You state that it is your opinion that a similar conclusion would probably be reached by the Federal Reserve Board as to these 'rental sales contracts', and you ask to be advised concerning the Board's views upon this matter before you answer the bank's inquiry.

"You are advised that the Federal Reserve Board is of the opinion that automobile 'rental sales contracts' of the type here under consideration are not 'stocks, bonds, debentures, or other such obligations' within the meaning of that phrase as used in the second paragraph of section 23A of the Federal Reserve Act. The opinion of the Board upon this matter is based upon essentially the same considerations which were expressed in its mimeographed letter of August 7, 1933 (X-7540) regarding real estate mortgages."

Approved.

Letter to Mr. Clerk, Deputy Governor of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letters of December 21, 1934 and February 27, 1935, with inclosures, regarding the payment of interest on certain certificates of deposit which were payable 'on ten days notice from either the payee or the bank on or before one year after date'.

"It is understood that the certificates in question were issued by the Wells Fargo Bank & Union Trust Co., San Francisco, California, and were dated April 10, 1919, but by verbal agreement were permitted to continue on the same terms after the expiration of the year. The bank sent a notice to all its depositors on June 17, 1933 advising them of the provisions of section 19 of the Federal Reserve Act,

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"as amended by the Banking Act of 1933, which forbid member banks to pay interest on deposits which are payable on demand. It is understood further that the holder of the certificates had died in 1932, and that when the certificates were paid to the administrators of the estate on October 24, 1934, interest was paid only until June 26, 1933.

"It has been noted that the copies of the certificates of deposit which you inclosed contain a statement that 'interest ceases at maturity'. Therefore, although it is stated that the certificates were permitted to continue by oral agreement, it does not appear from the facts before the Board that any contract providing for the payment of interest was in force on the date of the enactment of the Banking Act of 1933, within the meaning of section 19 of the Federal Reserve Act as amended by the Banking Act of 1933.

"As you know, neither the Federal Reserve Board nor any Federal Reserve bank is authorized to make any exception to the prohibition in section 19 of the Federal Reserve Act against the payment of interest by member banks on deposits which are payable on demand. Therefore, on the basis of the facts before the Board, it is suggested that you advise the Wells Fargo Bank & Union Trust Co. that it may not lawfully pay any further interest on the certificates of deposit in question."

Approved.

Letter to Governor Seay of the Federal Reserve Bank of Richmond, reading as follows:

"Upon receipt recently of your circular No. 190, January 10, 1935, on discount rates, consideration was given to the form of the circular and to that of corresponding announcements by other Federal Reserve banks.

"Inasmuch as all Federal Reserve banks have for a number of years had a uniform discount rate on all of the classes and maturities of paper named in your circular, and as the circular does not refer to advances on obligations fully guaranteed by the United States Government, it is felt that consideration should be given to eliminating from the published schedule any reference to specific maturities and types of paper. It is also felt that announcements should invariably include a reference to the

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"relevant section or sections of the Federal Reserve Act.

"The following example illustrates the type of announcement which it is suggested may be followed:

"This bank has established, effective from the opening of business February 8, 1934, and until further notice, a discount rate of 2 per centum per annum for rediscounts of eligible paper for member banks and for advances to member banks, under the terms of Sections 13 and 13a of the Federal Reserve Act, as amended."

Approved.

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

"In your letter of February 16, 1935, you inquire whether re-publication in corrected form of the report of the Utah Mortgage Loan Corporation, Logan, Utah, an affiliate of the Cache Valley Banking Company, Logan, a member bank, should be required.

"Since it appears from your letter that the affiliation has been terminated, and since the financial relationships between the bank and the affiliate were apparently covered in the published report, the Board, as you suggest, will not require re-publication of the report of the affiliate."

Approved.

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

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. Leon M. Little, Boston, Massachusetts, to serve at the same time as director and officer of The New England Trust Company, Boston, Massachusetts, as director and officer of The First National Bank of Ipswich, Massachusetts, and as director of Blue Hill Bank & Trust Company, Milton, Massachusetts, for transmittal by you to Mr. Little and the three banks and a copy for your files.

"In considering the application of Mr. Little it was noted that he had informed you of his association with certain charitable institutions which might make collateral loans if the investment of their funds in such manner should

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"appear advisable. Please inform Mr. Little that his services will be in violation of the Clayton Act irrespective of the issuance of this permit, if any corporation (other than the banks included in his permit) of which he is a director, officer or employee or any partnership of which he is a partner, makes loans on the security of stock or bond collateral while he is at the same time serving as a director, officer or employee of a bank organized under the laws of the United States.

"When transmitting the permit to the applicant and copies to the banks involved, please advise them that the permit has been issued so as to expire at the close of January 14, 1936, as there is now pending before the Congress proposed legislation for the purpose of clarifying and otherwise amending the provisions of the Clayton Act relating to interlocking bank directorates."

Approved.

Letter to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, inclosing the following amended Clayton Act permit for transmission to the applicant:

Mr. J. L. King, to serve at the same time as a director of The Lincoln National Bank of Hamlin, Hamlin, West Virginia, and as a director and officer of The Oil Field National Bank of Griffithsville, Griffithsville, West Virginia, for the period ending January 14, 1936.

Approved.

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

"Reference is made to the Clayton Act permits granted December 10, 1934, to Messrs. Thomas B. Finan, Hugh A. McMullen, Henry Shriver and H. A. Pitzer, all of Cumberland, Maryland, to serve at the same time as directors and/or officers of The First National Bank of Cumberland, Cumberland, Maryland, and other banks, which permits expired at the close of January 8, 1935; and to your letter of January 30, 1935, with inclosure relative thereto.

"The Board has reconsidered these applications and in conformity with the policy set forth in its letter of January 9, 1935 (X-9082), has granted permits to Messrs. Shriver and

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"Pitzer to serve as directors and/or officers of The First National Bank of Cumberland, Cumberland, Maryland, and The First National Bank of Mount Savage, Mount Savage, Maryland, for the period ending January 14, 1936. There are inclosed the originals and copies of the permits granted Messrs. Shriver and Pitzer for transmittal by you to the applicants and the banks involved and copies for your files. When transmitting the permits to Messrs. Shriver and Pitzer and copies thereof to the banks involved, please advise them that the permits have been issued so as to expire at the close of January 14, 1936, as there is now pending before the Congress proposed legislation for the purpose of clarifying and otherwise amending the provisions of the Clayton Act relating to interlocking bank directorates.

"On the basis of the information before it, the Board still feels, as indicated in its letters of October 20, 1934, and December 10, 1934, to you, that the issuance of the permits applied for by Messrs. Finan and McMullen would be incompatible with the public interest. The First National Bank of Cumberland and Liberty Trust Company, both of Cumberland, Maryland, appear to be engaged in the same class or classes of business and so located as to be in a position to compete substantially; and apparently no extraordinary circumstances exist to warrant approval of the applications. In this connection, reference is made to the Board's letter of January 9, 1935 (X-9082).

"Mr. McMullen, of course, may serve Liberty Trust Company of Cumberland and Fidelity Savings Bank of Frostburg without a Clayton Act permit. Please inform him accordingly and also advise him that, if he desires to serve The First National Bank of Cumberland and Fidelity Savings Bank of Frostburg, he may request permission by letter for such service, and that upon receipt from him of such request, accompanied by appropriate evidence of the severance of his connection with the Liberty Trust Company, the Board will give consideration thereto. This request, and any additional information submitted by Mr. McMullen in connection therewith, should of course be transmitted to you and forwarded to the Board with your recommendation.

"Please advise Messrs. Finan and McMullen of the Board's position in the matter and inform the Board whether Mr. McMullen wishes to submit a further request to serve The First National Bank of Cumberland and Fidelity Savings Bank of Frostburg and, if not, as to what steps he proposes to take in order to comply with the provisions of the Clayton Act. Please also inform the Board as to what steps Mr. Finan proposes to take in order to comply with such provisions."

Approved.

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The Clayton Act permits referred to above which were issued to Messrs. Shriver and Pitzer were as follows:

Mr. Henry Shriver, to serve at the same time as a director and officer of The First National Bank of Cumberland, Cumberland, Maryland, and as a director of The First National Bank of Mount Savage, Mt. Savage, Maryland, for the period ending January 14, 1936.

Mr. H. A. Pitzer, to serve at the same time as a director and officer of The First National Bank of Cumberland, Cumberland, Maryland, and as a director and officer of The First National Bank of Mount Savage, Mt. Savage, Maryland, for the period ending January 14, 1936.

Thereupon the meeting adjourned.

Chesapeake
Secretary.

Approved:

W. C. ...
Governor.