

A meeting of the Federal Reserve Board was held in Washington on Tuesday, April 2, 1935, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Memorandum dated March 28, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment for a period of three months of Mrs. Ethel L. Evans, as a clerk in that division, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties.

Approved.

Memorandum dated March 27, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Neva Ewin, who has been employed on a temporary basis as a stenographer in the division since November 27, 1934, be employed on a permanent basis, with salary at the rate of \$1,440 per annum, effective as of the date upon which she passes a satisfactory physical examination.

Approved.

Memorandum dated March 27, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Mavis Nergard, who has been employed on a temporary basis as a clerk-stenographer in the division since January 16, 1935, be employed on a permanent basis,

4/2/35

-2-

with salary at the rate of \$1,620 per annum, effective as of the date upon which she passes a satisfactory physical examination.

Approved.

Memorandum dated March 29, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the probationary appointment of Miss Helen G. Olmstead as a stenographer in the division, with salary at the rate of \$1,440 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.

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

"Reference is made to the report of examination of January 26, 1935, of the 'Geneva Trust Company', Geneva, New York, and the supplementary information submitted in connection therewith.

"The report indicates that after allowing for estimated losses, doubtful assets and net depreciation in securities, all aggregating \$286,100, the bank had a net sound capital of approximately \$363,200 (excluding from consideration a secured guaranty of \$40,000 given to protect depositors against the depreciation in securities) as compared with deposits of \$3,781,200, an investment of \$170,600 in banking house, furniture and fixtures, and an investment of \$125,000 in other real estate. It is observed that the bank proposes to reduce its common capital from \$250,000 to \$100,000 using the \$150,000 thus released toward the elimination of \$71,700 estimated losses and \$171,000 net depreciation in lower grade securities, stocks and defaulted bonds. The bank is not subject to a condition of membership requiring the approval of the Board for a reduction of capital and the Board will interpose no objection to the proposed reduction. When the capital adjustment has been completed it will be appreciated if you will forward information showing the eliminations effected.

"In connection with the sale of \$500,000 Class 'A' debentures to the Reconstruction Finance Corporation on November 28, 1934, it appears that \$60,000 of a \$100,000 secured guaranty executed February 13, 1932, for the protection of depositors against depreciation in the bank's securities investments was converted into 'B' debentures and that the \$40,000 remaining represents the liability of three guarantors who are deceased. It will be appreciated if you will advise what plans

4/2/35

-5-

"are contemplated for the conversion of the remaining \$40,000 of the guaranty.

"The management of the bank is reported by the examiner to be only fair and he states that it unquestionably could be improved by a more forceful president. He adds that the present incumbent assumes a large part of the detail work of the bank, that he handles practically all credit matters but he is not physically strong nor mentally disposed to handle loan situations as they should be handled. It will be appreciated if you will advise the Board whether there are any plans under consideration for strengthening the management of the institution.

"The large amount of depreciation in the bank's investment account indicates the need for its close supervision and the desirability of improving the quality of the securities held as opportunities are offered. The account also reflects a heavy investment in stocks, which, as you know, the Board does not feel are suitable for the investment of funds of member banks.

"Please keep the Board advised of any improvements effected in the general condition of the bank."

Approved.

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

"Reference is made to Mr. Fry's letter of March 21, 1935, regarding the proposed reorganization of the 'Putnam County Bank', Hurricane, West Virginia, a member bank which has not been licensed to reopen on an unrestricted basis since the banking holiday of March 1933.

"It appears that the proposed plan of reorganization contemplates a 100% assessment against stockholders and a 50% waiver by unsecured creditors which will provide for the elimination of all assets classed as doubtful or loss, including substantial depreciation on banking house, furniture and fixtures, all depreciation in securities, practically all substandard securities, and all other real estate. It is understood that you consider the plan equitable and the best that can be evolved in the circumstances; also that the Banking Commissioner for the State of West Virginia concurs in your opinion. Further, it is assumed that your counsel has considered the plan, is satisfied as to its legal aspects, and that the proposed reorganization will not result in any change in the corporate existence of the bank which will affect its membership in the Federal Reserve System. The plan also provides for a reduction of common stock from \$50,000 to \$25,000 and the sale of \$25,000 preferred stock to the Reconstruction Finance Corporation.

"It is understood that the matter has been referred to the Board because of the length of time that the bank has been in conser-

4/2/35

-4-

"vatorship. It does not appear that the consent of the Board for the reduction of capital is required by law or the conditions of membership applicable to the bank and, in view of all the circumstances, the Board will interpose no objection to the reorganization of the bank or to the proposed reduction of capital.

"If the bank proceeds with the reorganization, please forward copies of the plan as finally adopted, of all agreements entered into between the bank, stockholders, depositors, or others incidental to the reorganization, and of the certificates of participation issued to the waiving depositors."

Approved.

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

"Reference is made to your letter of January 10, 1935, with which was transmitted a new application of the 'Mercantile National Bank at Dallas', Dallas, Texas, for full fiduciary powers.

"The bank's application was given careful consideration in the light of the report of examination of August 21, 1934, and of the information submitted by the bank and by yourself, and was again reviewed subsequent to receipt of the report of examination of January 28, 1935, a copy of which was transmitted with your letter of February 25, 1935.

"For your confidential information, it may be stated that the Comptroller of the Currency was requested to submit his recommendation shortly after the new application was received, and again after the report of examination of January 28, 1935 was available, and that at both times the Comptroller recommended against the granting of full trust powers to the applicant. In doing so, he referred to the large volume of direct and indirect liabilities of directors, officers, employees and corporations in which they are interested; direct loans to affiliates; illegal real estate loans; illegal Mercantile Building Company bonds; corporate stocks which are illegal investments; two excessive loans (one to an affiliate); increase in other real estate owned, and other items of criticism enumerated in the report. Attention was also directed to the large volume of real estate bonds sold to the public by the former Mercantile Securities Company which are outstanding, and to the moral liability existing in connection therewith.

"While it is appreciated that the bank, since conversion, has grown rapidly, has materially improved its asset condition, and is apparently handling its fiduciary business, acquired from the predecessor bank under the limited authority heretofore granted, in a satisfactory manner, the Board, in view of the criticisms of the examiner and the adverse recommendation of the Comptroller of the

4/2/35

-5-

"Currency, is not prepared to authorize the institution to exercise any additional fiduciary powers at this time, and you are, therefore, requested to advise the Mercantile National Bank at Dallas that the Board has denied its application."

Approved.

Letter to Mr. Luther Nelson, Assistant Treasurer, Smith, Kirkpatrick & Co., Inc., New York, New York, reading as follows:

"This is in reply to your letter of March 15, 1935, in which you state that you are interested in resuscitating the First Federal Foreign Banking Corporation (in liquidation) and ask the Board whether it would be possible to terminate the liquidation proceedings of the corporation so as to permit the resumption of its operations after the contribution of new capital.

"The stockholders' resolution that the corporation go into voluntary liquidation and be closed was adopted in 1933 and substantial liquidation has been effected. In view of the length of time in which the corporation has been in liquidation and the extent to which the liquidation has proceeded it would seem reasonable to assume that the liquidation should be completed. In the circumstances, however, the Board does not feel that a definite opinion can be expressed either on the legal or practical aspects of a proposal to revive the activities of the corporation in the absence of a request from its stockholders for the consideration of such a proposal, together with such information as will enable the Board to consider all of the factors involved.

"In the event that you may be interested in the organization of a new corporation under section 25(a) of the Federal Reserve Act, generally referred to as the Edge Act, there is inclosed a copy of the Board's Regulation K pertaining to such a corporation. As stated in section VI of this regulation, no such corporation may be organized with a capital stock of less than \$2,000,000. At least one-quarter of this amount must be paid in before the corporation may be authorized to begin business and the remainder may be paid in as prescribed in section 25(a) of the Federal Reserve Act.

"If there is further information which you desire in connection with this matter, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of New York, who will be glad to advise you further regarding the organization of banking corporations under the provisions of section 25(a) of the Federal Reserve Act."

Approved.

4/2/35

-6-

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

"Reference is made to your letter of March 8, 1935, inclosing a copy of a letter dated March 6, 1935, from the president of the 'Union Trust Company of Maryland', Baltimore, Maryland, requesting the Board's permission, in accordance with membership condition numbered 7, to hold until December 31, 1935, miscellaneous stocks acquired by the bank in connection with debts previously contracted in good faith which it now holds and which may be similarly acquired by it prior to July 1, 1935.

"The Board has previously granted the bank permission to hold until April 30, 1935, stocks which had been acquired in connection with debts previously contracted in good faith and which had been held by the bank six months or more. In view of all the circumstances, including your recommendation, the Board extends to December 31, 1935, the time within which the bank may dispose of any stocks acquired in connection with debts previously contracted in good faith which it now holds or which may be similarly acquired by it prior to July 1, 1935. It is requested that you advise the bank of the Board's action in the matter.

"Condition numbered 7 has, as you know, been prescribed for some time by the Board as a standard condition of membership. As indicated by the provisions of the condition, the Board feels that stocks are not suitable for the investment of funds of member banks and the restrictions and provisions of the condition in regard thereto are intended to promote sound banking practice. It is recognized, however, that circumstances may arise which require that, for its own protection, a bank acquire stocks in connection with debts previously contracted in good faith and that it is often impossible or impracticable for the bank immediately to dispose of the shares thus acquired. Under the provisions of membership condition numbered 7, therefore, shares so acquired may be held for six months or, if permission is granted by the Board, for a longer period.

"In order to expedite the handling of requests of banks for extensions of time under the provisions of membership condition numbered 7, the Board feels that it is appropriate to authorize the respective Federal reserve agents, in their discretion, to extend on the Board's behalf for specified periods the time within which banks subject to condition of membership numbered 7 shall dispose of stock acquired in connection with debts previously contracted in good faith. Accordingly, you are hereby authorized on behalf of the Board to grant such extensions when, in your opinion, an extension is warranted.

"It is requested that the Board be advised of any extension of time which is granted under this authorization. Of course, should any case arise in which for any reason you are in doubt as to the wisdom of granting the requested extension of time under this au-

4/2/35

-7-

"thorization, the bank's request may be submitted to the Board for determination, together with all of the pertinent facts in the case, including your comments and recommendation."

Approved, together with a letter to all Federal reserve agents requesting that the procedure outlined in the above letter be followed in connection with any requests received from member banks for an extension of time within which to dispose of stocks acquired on account of debts previously contracted.

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

"Reference is made to your letter of March 22 inquiring whether the Board has given or will give consideration to the extension of the authority given in its letter of March 28, 1934 (X-7836) to the Federal Reserve banks to pay traveling and subsistence expenses of representatives of the banks and their employees on the Board of Trustees and any committee of the Retirement System of which they may be members.

"The Board's letter of March 28, 1934, was based upon a resolution adopted by the Board of Trustees of the Retirement System on March 14, 1934, requesting the Federal Reserve banks and the Federal Reserve Board to bear the traveling and subsistence expenses of the members of the Board of Trustees and members of committees during the formulative period of the Retirement System. The Federal Reserve Board will be glad to consider any further recommendation on this subject that the Board of Trustees of the Retirement System may wish to submit."

Approved.

Memorandum dated March 9, 1935, from Mr. James, submitting a letter dated March 8, 1935, from Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York and recommending that the Board interpose no objection to an expenditure by the Federal Reserve Bank of New York of not to exceed \$11,000 in the employment of the bank's architects, Messrs. York & Sawyer, and engineers, Messrs. Meyer, Strong & Jones, to make a survey and report on the air conditioning of the entire building of the Federal Reserve

4/2/35

-8-

Bank of New York, with the understanding that if the report should indicate the advisability of such installation, the whole matter will be discussed with the Federal Reserve Board.

Approved, and the Secretary was authorized to address a letter to Mr. Sailer advising him accordingly.

Letter to Mrs. Nellie Charles, Winslow, Arizona, reading as follows:

"Receipt is acknowledged of your letter of March 18, 1935, regarding the payment before maturity of certain certificates of deposit issued to you by the First National Bank, Winslow, Arizona.

"Section 19 of the Federal Reserve Act prohibits the payment by a member bank of the Federal Reserve System of any time deposit before its maturity, and, accordingly, a member bank may not pay a time certificate of deposit, which is payable at the expiration of six months, before such six months' period has expired, even though no interest is paid on such deposit. The language of the statute is explicit and does not authorize the Federal Reserve Board to make an exception in any case. Accordingly, assuming that the certificates of deposit in question are time certificates of deposit as defined in Section III(a) of Regulation Q, a copy of which is inclosed, the First National Bank of Winslow, Arizona, which is a member of the Federal Reserve System, may not lawfully pay such certificates before the date of maturity specified therein."

Approved.

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

"Receipt is acknowledged of your letter of March 25, 1935 regarding the application of Mr. Wilfrid M. Hager of Princeton, New Jersey, under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as director of the Princeton Bank and Trust Co., Princeton, New Jersey, and as inactive partner of Shove, Hager & Co., Colorado Springs, Colorado. You state that the partnership of Shove, Hager & Co. has been dissolved and that the business of the company is being conducted by Shove, Hager & Co., Inc., of which Mr. Hager is a stockholder but not an officer or director.

"Under the circumstances the Board will take no further action upon his application. Please advise the applicant accordingly."

Approved.

4/2/55

Thereupon the meeting adjourned.

Robert Morley
Secretary.

Approved: W. S. ...
Governor.