

A meeting of the Federal Reserve Board was held in Washington on Thursday, April 4, 1935, at 11:10 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  
Mr. Clayton, Assistant to the Governor

ALSO PRESENT: Mr. Oscar Newton, Governor of the Federal Reserve Bank of Atlanta  
Mr. Robert S. Parker, Counsel for the Federal Reserve Bank of Atlanta

Reference was made to a draft of telegram to the Federal Reserve Bank of Atlanta, which was prepared in New York yesterday by Governor Newton, advising of an increase in the rate on cable transfers through the Havana Agency, and which had been telephoned to the Board with the suggestion from Mr. James, who was also in New York, that, as it was proposed to make the new rate effective on April 4, the Board take action on it immediately.

Mr. James stated that he and Governor Newton went to New York yesterday and met at the Federal Reserve Bank of New York with representatives of the American and Canadian banks which have branches in Havana, to discuss possible methods by which the loss resulting from the operation of the Havana Agency might be eliminated, and that after the representatives had expressed the unanimous opinion that the maintenance of the agency is absolutely necessary under existing

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circumstances and that they were in agreement that the agency should be made self-sustaining, motion was made by one representative, and agreed to unanimously by all, that the rate to banking institutions in Havana on cable transfers be increased from \$1.00 to \$2.00 per thousand, effective immediately, with the understanding that the new arrangement would remain in operation for one year after which the rate would be readjusted to an amount which would cover the operating expenses of the agency without resulting in a profit to the Federal reserve bank.

Governor Newton said that during the meeting he had made inquiry of the banks' representatives as to whether they were satisfied as to the operation of the agency and its personnel and that they all expressed satisfaction with the agency and the highest regard for each member of its staff. He also said that he was very anxious to expedite the completion of arrangements for the operation of the Havana Agency on a System basis.

Governor Eccles stated that the Havana Agency is of service particularly to the commercial banks in New York and Boston which operate branches in Havana and that, as the Federal Reserve Banks of Boston and New York carry the reserves of the commercial banks, he felt that some portion of the loss resulting from the operation of the agency should be absorbed by the Federal Reserve Banks of Boston and New York. He said that it occurred to him that if the Federal Reserve Bank of Atlanta should increase the rate on cable transfers as a means of eliminating the operating loss at the agency, the

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commercial banks operating in Cuba might make a similar increase in their rates for cable transfers which are not handled through the agency, using the increase in the rate charged by the Federal reserve bank as an excuse for their action, and, as it is possible that the proportion of transfers which are not handled through the agency may be very large, such action might result in an increased burden on commerce with Cuba and complaints from interested parties, and that he felt the Board should give very careful consideration to the matter and develop information as to the effects of the proposed action. Governor Eccles also raised the question as to how the rate of \$2.00 per thousand compares with rates on cable transfers between the United States and other foreign countries.

Mr. James stated that he felt the Federal Reserve Bank of Atlanta is justified in charging a rate which would reimburse it for the cost of the services rendered by the agency; that the competitive position of the commercial banks in Cuba very likely would prevent an increase in the rate for transfers by such banks; that the basis for the charge on cable transfers through the Havana Agency is different from other cable transfers as the former always involve the payment or receipt of currency at the agency, and that the fact to be considered in determining the charge was the cost of the service to the Federal Reserve Bank of Atlanta.

Other possible methods of meeting the cost of operating the agency were mentioned and Mr. James stated that at the meeting in New



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York yesterday with representatives of the commercial banks it was suggested that the banks might bear a pro rata share of the cost of operating the agency to be determined on the basis of the extent to which they used the facilities of the agency, and that the representatives had questioned whether their banks could legally enter into such an agreement and had agreed that the better way to solve the problem was to increase the rate on cable transfers.

Governor Eccles suggested that before action is taken it would be desirable to ascertain what proportion of the transfers to and from Havana are handled by the commercial banks without reference to the agency, whether the proposed increase is a reasonable one, and whether the commercial banks will make a similar increase in their rates to customers.

During an ensuing discussion reference was made to the suggested operation of the Havana Agency on a System basis and some of the members of the Board stated that they were prepared to take whatever action is necessary to put such an arrangement into effect.

Mr. Parker stated that he had prepared a draft of contract covering the operation of the agency on a System basis and providing that any operating losses would be borne by the Federal Reserve Bank of Atlanta and any extraordinary losses resulting from revolution, riots, etc., by all Federal reserve banks in proportion to their capital and surplus. He said that, as there had been some question at the Federal Reserve Bank of Minneapolis as to the authority of the



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bank to enter into such a contract, he had corresponded informally with Mr. Ueland, Counsel for the Minneapolis bank, and that he believed the question of the Federal reserve bank's authority in the matter had been settled. He called attention to the fact that the board of directors of the Federal Reserve Bank of Minneapolis would meet on Monday, April 8, and stated it was believed to be desirable that advice of any action that the Board might take in the matter be communicated to the Minneapolis bank for consideration of the directors at that meeting.

Mr. Szymczak moved that Mr. Parker be requested to discuss the legal phases of the contract with Mr. Wyatt, General Counsel, with the understanding that after the form of contract has been approved by Messrs. Parker and Wyatt and by Mr. Morrill, it would be circulated, first to Mr. James and Mr. Thomas, and then to the other members of the Board for approval, together with a letter to each Federal reserve bank transmitting a copy of the contract for execution in the event it is approved by the board of directors of the bank.

Carried.

Further discussion followed with regard to the action to be taken in connection with the proposed increase in rate by the Havana Agency on cable transfers and Mr. Thomas stated that he would like to know before action is taken on the matter whether the commercial banks intend to increase their transfer rates.

Mr. Parker stated that there was a possibility that transfers of funds out of Cuba were considered as an export of currency and, therefore, subject to the Cuban transfer tax and that all such outgoing transfers were being effected through the Havana Agency in order to

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avoid the tax.

At the conclusion of the discussion, Mr. Szymczak moved that action on the matter be deferred until the next meeting of the Board in order to permit the development of information which would enable the Board to reach a conclusion on the questions raised during the discussion.

Carried.

Governor Newton and Mr. Parker left the meeting at this point.

Governor Eccles stated that on April 2 Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, called on him and left a report adopted by the Federal Advisory Council on the Banking Bill of 1935 which the Council desired to file with the Banking and Currency Committees of Congress, but before doing so wished to get the Board's approval of such action. He said that he had gone over the report and felt that it would be very unfortunate if it were submitted to the Congressional committees and that he would suggest that the Board request the Council to come to Washington to discuss the report.

The Secretary was requested to prepare a telegram to Mr. Walter W. Smith, President of the Federal Advisory Council, in accordance with Governor Eccles' suggestion, and it was understood that if the members of the Council should invite Governor Eccles to meet with them for further consideration of the report there would be no objection to his doing so.

The minutes of the meeting of the Federal Reserve Board held on March 21, 1935, were approved.

The Board then acted upon the following matters:

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Telegrams dated April 3, 1935, from Governor Young of the Federal Reserve Bank of Boston, Mr. Post, Assistant Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, all advising that, at meetings of the boards of directors on that date, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Telegram dated April 3, 1935, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with action taken by executive committee of your bank, referred to in your March 29 letter, Board approves salary at the rate of \$4600 per annum for C. M. Saltnes as 'Manager, Check Department'. Board notes from your letter that Assistant Deputy Governor Bachman has been placed in charge of the Collection Department in the position formerly occupied by L. G. Pavay, that of 'Manager, Collection Department'. Please advise effective date of these changes, including date of Mr. Pavay's retirement, and whether any change has been made in Mr. Bachman's title."

Approved.

Letter dated April 3, 1935, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your letter of March 16, 1935, with regard to the application of 'The First National Bank in Burlington', Burlington, Iowa, for full fiduciary powers which was recently disapproved by the Board in view of the bank's low ratio of capital structure to deposits. The Board has given further careful consideration to the matter pursuant to the



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"request contained in your letter.

"It appears from the information before the Board that the bank has an opportunity, in view of its location in a county-seat city of approximately 27,000 inhabitants, to develop a considerable volume of trust business. It has also been noted that the bank deposits in Burlington aggregated more than \$20,000,000 at the end of 1930 as compared with a total of approximately \$4,500,000 at the end of 1934. It appears that the deposits of the subject bank, on January 29, 1934, amounted to \$1,303,000, and, on December 21, 1934, amounted to approximately \$2,000,000. It seems probable that the subject bank, under competent management, will continue to increase its deposit liability and any such increase, of course, would reduce the margin of capital protection afforded its depositors. In this connection, the bank had a capital and surplus on December 31, 1934, equal only to approximately 6.3 per cent of its total deposits.

"As you know, the Board has repeatedly taken the position that, as a general principle, the bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities, and in some circumstances, should be more than one-tenth of such amount. The Board has taken into consideration the nature of the assets of The First National Bank in Burlington at this time but it would appear, from a practical banking standpoint, that the capitalization of the bank is not adequate in view of the amount of its deposit liabilities and possible changes in the character of its assets, and also in view of the probable further increase of its deposit liabilities. In the circumstances, it does not appear that the Board would be justified in permitting the bank to assume the additional responsibilities and liabilities involved in the operation of a trust department, particularly since the bank is apparently unwilling to provide additional capital funds.

"In this connection, the National Bank Examiner, in his report of examination as of September 19, 1934, commented upon the undercapitalized condition of the bank and stated that the directors had been urged to give immediate consideration to a substantial increase, the suggested amount being not less than \$50,000. It may be stated also, confidentially, that Acting Chief National Bank Examiner Beatty, under date of January 3, 1935, wrote the bank criticizing its declaration of a dividend in view of its inadequate capital structure and stated that 'in the face of the fact that the bank is being urged to increase the amount of its capital structure, distribution of any part of that capital structure in the form of dividends to shareholders appears wholly unwarranted \* \* \*.'

"It is apparent that, in acting upon applications for fiduciary powers, the Board should consider whether or not the

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"amount of the capital and surplus of the applying bank is adequate under the circumstances involved in the particular case, and this fact is recognized by the provisions of the Federal Reserve Act under which the Board is authorized to grant fiduciary powers to national banks. In view of the nature of the responsibilities involved in the exercise of fiduciary powers, it would seem clear that as a general proposition such powers should not be granted to a bank unless its capital and surplus are sufficient to afford adequate protection not only to its depositors but also to the beneficiaries of trusts in which it undertakes to act. The Board would be very reluctant to grant fiduciary powers to a bank when it was questionable whether or not its capital and surplus were sufficient to afford adequate protection to its depositors. In the instant case, it is believed that the bank, if it seriously desires to obtain trust powers, should be willing to add to its capital structure sufficiently to provide a ratio of unimpaired capital and surplus to total deposits of at least one to ten, and, if this should be accomplished, the Board will be glad to give further consideration to the application for fiduciary powers. It is assumed, of course, in this connection, that if additional capital could not as a practical matter be raised locally consideration would be given to the possibility of obtaining additional capital funds from the Reconstruction Finance Corporation."

Approved.

Letter dated April 3, 1935, approved by five members of the Board, 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 Valdosta', Valdosta, Georgia, from \$125,000 to \$50,000, pursuant to a plan which provides that the released capital, together with a portion of the bank's surplus and reserve accounts, will be used to eliminate \$87,102.53 of substandard assets, all as set forth in your letter of March 18, 1935.

"It is noted that the bank, on February 24, 1934, increased its capital by the sale of \$150,000 of preferred stock to the Reconstruction Finance Corporation and that the plan of capital reduction does not contemplate any further increase in capital at this time."

Approved.



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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 Glenwood Springs', Glenwood Springs, Colorado, from \$100,000 to \$50,000, pursuant to a plan which provides that the released capital shall be used in eliminating a corresponding amount of substandard assets, which are to remain the property of the bank, all as set forth in your memorandum of March 21, 1935.

"In this connection, it is assumed that your office will require the elimination, at least, of all estimated losses as classified in the latest report of examination.

"It is noted that the bank's capital previously has been increased by the sale of \$75,000 of preferred stock to the Reconstruction Finance Corporation, and that the plan of capital reduction does not contemplate any further increase in capital at the present time."

Approved.

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

"Receipt is acknowledged of your letter of March 26, 1935, in regard to the proposed reduction in common capital stock of the 'Crawford County Trust Company', Meadville, Pennsylvania, from \$250,000 to \$200,000, pursuant to a plan which provides for the sale of \$100,000 of preferred stock to the Reconstruction Finance Corporation and for the transfer of the released capital to the bank's surplus account.

"Since the Board's consent to the reduction is not required by law or the conditions of membership applicable to the bank, the Board offers no objection to the reduction in capital in the amount indicated, with the understanding, of course, that your counsel is satisfied as to the legal aspects of the case, that such reduction in common capital stock will not result in any change in the corporate existence of the bank which will affect its membership in the Federal Reserve System, and that the transaction has the approval of the Pennsylvania State Banking Department.

"In view of the large amount of estimated losses and other criticized assets shown in the report of examination as of July 30, 1934, and the comparatively small amount of corrections



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"reported in your letter of September 22, 1934, it will be appreciated if you will advise as to the eliminations which may be made in connection with the recapitalization program, and as to whether in your opinion the bank has effected adequate corrections and adjustments of the estimated losses and depreciation in securities. Also, please forward copies of any amendments to the bank's charter which may be adopted in connection with the capital adjustments."

Approved.

Letter dated April 3, 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:

"Reference is made to Mr. Gidney's letter of March 26, 1935, inclosing a copy of a letter dated March 15, 1935, from Mr. Percival S. Hill, Vice President and Cashier of Bank of Nutley, Nutley, New Jersey, concerning the limited voting permit issued to Bank of Nutley on January 8, 1935, in which Mr. Hill states that the proposed merger of The Franklin National Bank of Nutley with Bank of Nutley cannot be effected by April 1, 1935, the expiration date of the limited voting permit, and requests that this permit be extended for a period of ninety days.

"In considering this request the Board has noted that the proposed merger is a part of a rehabilitation and merger plan involving the sale of preferred stock of Bank of Nutley to the Reconstruction Finance Corporation; that the Reconstruction Finance Corporation has required recent examinations of both institutions in connection with its purchase of preferred stock, which examinations have just been completed; that Mr. Hill states that the delay in effecting the proposed merger was occasioned through no lack of action on the part of Bank of Nutley; and that Mr. Gidney recommends that Bank of Nutley be granted the extension of time requested by it to vote the stock which it owns or controls of The Franklin National Bank of Nutley for all purposes necessary to effect such merger. Accordingly, the Board has authorized the issuance by you of a limited voting permit for the purposes and upon the condition stated below.

"The limited voting permit authorized herein shall entitle 'Bank of Nutley', Nutley, New Jersey, to vote stock which it owns or controls of 'The Franklin National Bank of Nutley', Nutley, New Jersey, for the following purposes:

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"To act at any time prior to July 1, 1935, upon a proposal to place The Franklin National Bank of Nutley in liquidation and/or to cause such bank to merge or consolidate with or be absorbed by Bank of Nutley and to do all things which may be necessary to effect such liquidation and/or merger, consolidation or absorption; provided, that such proposal shall be in accordance with a plan or plans which shall have been approved by the appropriate supervisory authorities and which shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of New York.

"Prior to the issuance of the limited voting permit authorized herein, the applicant shall agree as follows:

- "1. That prior to or simultaneously with the absorption of The Franklin National Bank of Nutley by Bank of Nutley, and in any event not later than July 1, 1935, the undersigned shall cause The Franklin National Bank of Nutley to charge off or otherwise eliminate
  - (a) all losses in loans and discounts,
  - (b) all depreciation in stocks and defaulted securities,
  - (c) all depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities, and
  - (d) all other losses;as shown by the latest available report of examination made by a national bank examiner.
- "2. That the undersigned will rehabilitate its capital structure at the earliest practicable date, and in any event not later than July 1, 1935, by means of voluntary contributions and/or the issuance of common and/or preferred stock or otherwise to the extent of at least \$300,000 in accordance with a plan which shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of New York and approved by the appropriate supervisory authorities, and which shall provide as a part of such plan that The Franklin National Bank of Nutley shall be absorbed by the undersigned, and that at the earliest practicable date, and in any event not later than the date on which its capital structure is supplemented in conformity with the rehabilitation plan, the undersigned shall charge off or otherwise eliminate
  - (a) all losses in loans and discounts,
  - (b) all depreciation in stocks and defaulted securities,
  - (c) all depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities, and,

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"(d) all other losses;

as shown by the latest available report of examination made for or satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of New York.

"Please have the permit authorized herein and the required agreement prepared by counsel for the Federal Reserve Bank of New York in the usual form.

"It will be appreciated if you will mail to the Board for its records two executed copies of the permit issued by you under the authorization contained in this letter and two executed copies of the agreement executed by the applicant."

Approved.

Letter dated April 3, 1935, approved by five members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to the voting permit application of Tustin Investment Company, Tustin, California, dated September 24, 1934, requesting authority to vote stock owned by it of The First National Bank of Tustin, Tustin, California.

"In your letter to the Board dated October 16, 1934, you asked for an expression of the Board's opinion as to the propriety of your suggesting to the Tustin Investment Company the dissolution of the corporation and the formation of a voting trust. It appears from the information furnished to the Board that the applicant corporation was organized to hold control of The First National Bank of Tustin for the purpose of preventing its acquisition by so-called chain banking interests and preserving its status as an independent institution, that the applicant's capital resulted from an exchange of its capital stock for capital stock of an equal par value of the subsidiary member bank; that dividends received from the subsidiary member bank are immediately redistributed to stockholders of the applicant and that earnings applicable to taxes and other expenses have been provided only through the use of borrowed funds for investment in certain types of assets bearing rates of interest higher than the rates paid on the borrowed funds; that such borrowed funds have not been invested in strictly high grade investments; and that a loss of approximately \$2,000 in investments appears probable, which loss if sustained would impair the applicant's capital, if no consideration were given to adjusting the carrying value of the bank's stock.

"As you know, Section 5144 of the Revised Statutes of the



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"United States, as amended by Section 19 of the Banking Act of 1933, provides in part as follows:

"The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application (for voting permit), the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, \*\*\*"

"While it is possible that the purposes served by the applicant corporation could be accomplished by a voting trust, the Board does not feel that it has any authority or responsibility to suggest the dissolution of the corporation. Accordingly, the Board does not desire to express an opinion or make any suggestion concerning such action. The Board, of course, would interpose no objection to the dissolution of the Tustin Investment Company and the formation of a voting trust if, in the circumstances, the officials of the applicant corporation should find such action more desirable than the continuance of the corporation. If a favorable opportunity arises in your contacts with the applicant corporation, it will not be objectionable to the Board for you to discuss your personal views in this matter informally with officials of the corporation.

"If the holding company affiliate relationship of Tustin Investment Company is not terminated, the Board will give due consideration to issuing or withholding a general voting permit when it has had an opportunity to consider all pertinent facts in this case. In this connection it is considered desirable that additional information be submitted covering the following:

- "1. Current appraisal of assets of the applicant and full information as to estimated losses, compiled in such manner as to serve as the basis for charge-off requirements precedent to the issuance of a general voting permit.
- "2. Full information as to the circumstances under which the applicant acquired a second lien on real estate which is subject to a prior lien held by John Dunstan, president of the applicant. Available information shows a probable loss of applicant's entire investment in the second lien.
- "3. Analysis of surplus and undivided profits or profit and loss accounts of applicant, showing the principal items and sources of income and dividends received and expenses and dividends paid covering the period from organization to date, preferably by years.
- "4. Detailed information with respect to applicant's

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"borrowings from the subsidiary bank and the manner in which such borrowings were liquidated.

"5. Full information with respect to any plans which the applicant or its officers or directors may have for increasing or strengthening the capital structure of the applicant.

"6. Recommendations of yourself and the Executive Committee of the Federal Reserve Bank of San Francisco with respect to the granting of a general permit.

"It will be appreciated if you will obtain and furnish such information, unless developments in connection with the possible dissolution of the corporation make further consideration of the application unnecessary."

Approved.

Telegram to Governor Schaller of the Federal Reserve Bank of Chicago, reading as follows:

"Your letter April 2. Since feature of bonus is eliminated, Board now has no objection to industrial loan to Hudson Motor Car Company."

Approved.

Letter dated April 3, 1935, approved by five members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"In your letter of March 25, written in reply to the Board's letter of March 22, X-9159, you ask to be informed from what sections of your district the Board is receiving information indicating the existence of a strong feeling that there is a demand for industrial credit which is not being met.

"The Board has, as you know, received letters from a number of unsuccessful applicants in your district who expressed such a conviction. While it goes without saying that applications must be rejected where there is insufficient basis for credit, the fact remains that the disappointed applicants and those who are influenced by them may be expected to spread the idea that the Federal Reserve banks are not administering the law in the spirit which was intended. This may have the effect of discouraging applicants whose credit might be found acceptable. For these

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"reasons, it appears to the Board all the more desirable that the willingness of the Federal Reserve banks to consider applications and to extend credit wherever possible should be stressed. It is believed that an intensive effort to make the position of the Federal Reserve banks known will not entail any impairment of credit standards.

"From elsewhere than your district the Board has also received evidence that some member banks share the opinion that the Federal Reserve banks are not making all the loans they should. It is felt that evidence of such opinion makes it incumbent upon the Federal Reserve banks to spare no effort to extend the industrial loans program."

Approved.

Letter to Mr. Grosvenor M. Jones, Chief of the Finance Division, Bureau of Foreign and Domestic Commerce, Department of Commerce, reading as follows:

"Attached you will find tables showing the classification by types of business and by maturities of loans made by the Federal Reserve banks under the provisions of Section 13b of the Federal Reserve Act. These tables were prepared in response to your request for such data for the use of the Small Industries Committee of the Business Advisory and Planning Council."

Approved.

Telegram to Mr. Sproul, Secretary of the Federal Reserve Bank of New York, reading as follows:

"Your letter March 29. Board interposes no objection to your making accessible to representatives of munitions committee such official rulings and correspondence regarding foreign loans during years 1914-1919, held in records of your bank, as may be pertinent to matter under investigation by committee. It is understood that files will be reviewed by representative of your bank and such material as is pertinent to inquiry made available to representatives of committee in presence of representative of your bank."

Approved.

Letter to the Attorney General of the United States, reading as follows:



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"It appears from the report of examination of the North Side Bank, St. Louis County, Missouri, formerly a member of the Federal Reserve System, made as of October 15, 1934, that the bank may be involved in possible criminal violations of certain regulations of the Secretary of the Treasury issued under the authority vested in him by section 4 of the Act of March 9, 1933, and the Proclamations and Executive Orders of the President of the United States issued pursuant to section 5(b) of the Act of October 6, 1917, as amended by the Act of March 9, 1933, under which the bank operated prior to its withdrawal from membership in the Federal Reserve System on January 24, 1935. In this connection, the following is quoted from the report of examination:

"In the course of this examination, which was made to determine whether the institution is now entitled to a license to reopen and resume its normal banking functions, it was found that the regulations under which the bank has been operating have been violated in the following respects:

- (a) The records of the institution have not been maintained in a manner which would enable the examiner to satisfactorily determine the amount of restricted deposits and the amount of unrestricted deposits.
- (b) Withdrawals of restricted funds have been permitted.
- (c) Assets held at the time of suspension to protect restricted deposit balances have not been kept separate from assets securing trust funds, as required by Regulation 27, dated March 20, 1933.
- (d) Certain of the assets held to secure restricted deposit balances and/or trust accounts have been used to defray the organization expense of the new bank.
- (e) Trust funds have been accepted as time deposits and interest paid on them contrary to the provisions of Regulation 7, dated March 6, 1933.
- (f) Trust funds have not been kept segregated from other assets of the bank nor deposited or invested, as required by Regulation 7, dated March 6, 1933.
- (g) Funds designated by the management as representing trust deposits are insufficient by \$2,024.78 to cover such trust funds.'

"In reply to the Board's request for further information with regard to the matter, the Federal Reserve Agent at the Federal Reserve Bank of St. Louis has advised the Board as follows:

"You wish to be furnished with any additional information we may have with regard to the violations in question, together with my views in the premises. It is my opinion that the apparent violations which are set out in the report of examination of October 15, 1934, were due largely to an inadequate bookkeeping system, to the active officer's ignorance

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"of the law and to the management's belief that the institution would shortly be rehabilitated and permitted to resume its normal banking business.

"We understand that since its withdrawal from membership, the bank has been endeavoring to obtain deposit insurance and a license from the State Banking Department, and that the officer chiefly responsible for the alleged violations will be replaced."

"In accordance with the usual practice of the Board in such cases, the matter is being reported to you for such action as you consider advisable and the Federal Reserve Agent at the Federal Reserve Bank of St. Louis is being requested to make a similar report to the local United States Attorney."

Approved.

Letter dated April 3, 1935, approved by five members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. J. Wade Bell, Quinwood, West Virginia, to serve at the same time as director and officer of The Winona National Bank, Winona, as director of Bank of Quinwood, Quinwood, and as director of Greenbrier Valley Bank, Lewisburg, all of West Virginia, for the period ending January 14, 1936, for transmittal by you to the applicant and the banks involved and a copy for your files.

"In the consideration of this application, it was noted that Mr. Bell apparently had violated section 22(g) of the Federal Reserve Act by reason of his failure to report his loans at other banks, which alleged violation was reported to the United States Attorney at Huntington, West Virginia. In view of the fact that Mr. Bell is the president of the national bank and that the bank apparently has no 'chairman of the board of directors', it seems probable that the alleged violation resulted from inadvertence or from ignorance or misunderstanding of the law and that it may therefore be a violation of the kind which would not be reported to the United States District Attorney under the procedure described in the Board's confidential letter of February 13, 1935 (X-9124), if Mr. Bell should take steps to correct the apparent violation within a reasonable time. Accordingly, you are requested to make such investigation as you may think necessary and, if you find the circumstances to be such that the apparent violation would not be reported to the United States Attorney pursuant to the Board's confidential letter of February 13, 1935

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"(X-9124), please release the permit to the applicant and forward copies thereof to the banks involved, advising the Board of the disposition which is made of the matter. However, if you find that the circumstances were such that it would have been reported to the United States Attorney pursuant to the Board's confidential letter if a State member bank were involved, please hold the permit and advise the Board fully respecting the matter.

"In the event the permit is released to the applicant and copies thereof 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 dated April 3, 1935, approved by five members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. B. G. Riviere, Liberty, Texas, to serve at the same time as director and officer of The First-Liberty National Bank, Liberty, Texas, and as a director and officer of Security State Bank, Anahuac, Texas, for the period ending January 14, 1936, for transmittal by you to the applicant and the banks involved and a copy for your files.

"In the consideration of this application it was noted from the report of examination of the Liberty bank as of November 26, 1934, that Mr. Riviere apparently had violated section 22(g) of the Federal Reserve Act by reason of his failure to report his loans at other banks, which alleged violation was reported to the United States District Attorney, Houston, Texas. In view of the fact that Mr. Riviere is the president of the national bank and that the bank apparently has no 'chairman of the board of directors', and in view of the fact that it appears that Mr. Riviere is now ill and absent from Texas, it seems probable that the alleged violation resulted from inadvertence or from ignorance or misunderstanding of the law and that it may therefore be a violation of the kind which would not be reported to the United States District Attorney under the procedure described in the Board's confidential letter of February 13, 1935 (X-9124), if Mr. Riviere should take steps to correct the apparent violation within a reasonable time. Accordingly,



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"you are requested to make such investigation as you may think necessary and, if you find the circumstances to be such that the apparent violation would not be reported to the United States Attorney pursuant to the Board's confidential letter of February 13, 1935 (X-9124), please release the permit to the applicant and forward copies thereof to the banks involved, advising the Board of the disposition which is made of the matter. However, if you find that the circumstances were such that it would have been reported to the United States District Attorney pursuant to the Board's confidential letter if a State member bank were involved, please hold the permit and advise the Board fully respecting the matter.

"In the event the permit is released to the applicant and copies thereof 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 dated April 3, 1935, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, inclosing the following amended Clayton Act permit for transmission to the applicant:

Mr. George J. Bartle, to serve at the same time as a director and officer of The First National Bank of Prescott, Prescott, Iowa, and as a director and officer of the Iowa State Savings Bank, Creston, Iowa, for the period ending January 14, 1936.

Approved.

Letter dated April 3, 1935, approved by five members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of March 20, 1935, inclosing a copy of a letter dated March 19, 1935, from Mr. A. R. Cline, president of San Jacinto National Bank of Houston, Houston, Texas, submitting additional information in connection

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"with the Clayton Act application of Mr. W. W. Fondren, Houston, Texas, for permission to serve at the same time as director of San Jacinto National Bank of Houston and as director and officer of The National Bank of Commerce of Houston, both of Houston, Texas, which application was not approved by the Board as indicated in its letter of March 5, 1935, to you.

"The Board has reconsidered the application of Mr. Fondren but still feels that the issuance of the permit applied for would be incompatible with the public interest since the banks involved 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 the facts set forth in Mr. Cline's letter of March 19, 1935, to you, do not appear sufficient to warrant the issuance of the permit. Please inform the applicant accordingly and advise the Board promptly as to what steps Mr. Fondren proposes to take in order to comply with the provisions of the Clayton Act.

"In Mr. Cline's letter of March 19, 1935, to you, reference is also made to the services of Messrs. R. W. Wier, Frank Andrews, E. H. Buckner and J. M. Lykes, all of whom, with the exception of Mr. Buckner, are reported to be serving San Jacinto National Bank of Houston and other banks in Houston. The Board's files indicate that, with the exception of Mr. Lykes, these individuals were previously granted permits to serve the San Jacinto Trust Company of Houston and other banks; and the schedule of Clayton Act permits outstanding in the eleventh Federal Reserve District submitted with your letter of March 9, 1935, in response to the request contained in the Board's telegram of March 5, 1935, trans-2225, indicates that the permits previously granted to Messrs. Andrews and Buckner are now ineffective because the San Jacinto Trust Company of Houston is in liquidation. It appears that the permit heretofore granted to Mr. Wier is also ineffective for the same reason, although his permit is listed as effective in the schedule submitted by you. Your further advice in this connection will be appreciated.

"It is stated in your letter of March 20, 1935, that 'the question of whether these gentlemen should file new applications under the Clayton Act will depend upon your final action on the application of Mr. Fondren, since the status of the gentlemen referred to is exactly similar to that of Mr. Fondren.' It is assumed from this statement that you feel that the Board's action upon the applications of Messrs. Wier, Andrews and Lykes, if submitted, would be similar to its action upon the application of Mr. Fondren, in which event you would advise these individuals accordingly. Messrs. Wier, Andrews and Lykes are, of course, at liberty to file applications for Clayton Act

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"permits if such permits are necessary covering their present relationships and the Board will give consideration to such applications, if submitted. The question of the advisability of filing an application, however, is one for the determination of the individual involved. In this connection it may be desirable to acquaint these individuals with the general policy set forth in the Board's letter of January 9, 1935, governing the issuance of Clayton Act permits. Since Messrs. Wier, Andrews and Lykes apparently are now serving their respective banks in violation of the Clayton Act it will be appreciated if you will advise the Board fully of your action in this matter and of the steps which they propose to take to comply with the requirements of the Act."

Approved.

Letters dated April 3, 1935, approved by five members of the Board, to applicants for Clayton Act permits advising respectively of the issuance of permits by the Board as follows:

Mr. Walter G. Speer, to serve at the same time as an officer of The National City Bank of New York, New York, New York, and as an officer of the International Banking Corporation, Bridgeport, Connecticut, for the period ending January 14, 1936.

Mr. Homer B. Williamson, to serve at the same time as an officer of The National City Bank of New York, New York, New York, and as an officer of the City Bank Farmers Trust Company, New York, New York, for the period ending January 14, 1936.

Mr. W. Palmer Wilson, to serve at the same time as a director and officer of the Brenton State Bank, Dallas Center, Iowa, as a director and officer of the Dallas County State Bank, Adel, Iowa, and as a director and officer of The Poweshiek County National Bank of Grinnell, Grinnell, Iowa, for the period ending January 14, 1936.

Mr. R. E. Burks, to serve at the same time as a director and officer of The First National Bank in Blackwell, Blackwell, Oklahoma, and as a director of The First National Bank of Braman, Braman, Oklahoma, for the period ending January 14, 1936.

Mrs. Dora Goodson, to serve at the same time as a director of The First National Bank in Blackwell, Blackwell, Oklahoma, and as a director of The Stillwater National Bank, Stillwater, Oklahoma, for the period ending January 14, 1936.

Approved.



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There was then presented the following application for a change in stock of a Federal reserve bank:

<u>Application for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 2.</u>		
Lawyers County Trust Company,	150	150
New York, New York		

Approved.

Thereupon the meeting adjourned.

C. E. Moinel  
Secretary.

Approved:

M. Steele  
Governor.