

A meeting of the Federal Reserve Board was held in Washington on Tuesday, April 9, 1935, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Telegram to Mr. Strater, Deputy Governor of the Federal Reserve Bank of Cleveland, reading as follows:

"Your telegram and letter. Board approves for your bank following schedule of rates on industrial advances, effective immediately: Advances direct to industrial or commercial organizations: 4 1/2% to 6% per annum. Advances to financing institutions: 3 1/2% per annum on portion for which institution is obligated and 4% per annum on remaining portion. Commitments to make advances 1% per annum, the new rate to apply to future commitments and future payments on commitments to direct borrowers already outstanding."

Approved.

Memorandum dated April 4, 1935, from the Committee on Salaries and Expenditures submitting a letter dated April 3 from Mr. Sinclair, Deputy Governor of the Federal Reserve Bank of Philadelphia, which requested certain changes in the personnel classification plan of the bank. The memorandum stated that the Committee had reviewed the proposed changes and, with the exception of the increase in salary range for the position of "Chief Clerk", Reconstruction Finance Corporation, Collection Division, they appeared to be reasonable and not in conflict

4/9/35

-2-

with the principles set forth in Governor Eccles' letter of January 5, 1935, and recommends that they be approved. The memorandum also stated that while the personnel classification plan of the bank shows a salary range of \$2040-\$2520, established in February 1932, for the position of "Chief Clerk", Reconstruction Finance Corporation, Collection Division, the Board's records show a range of \$1680-\$1980, that the Committee is of the opinion that the salary range of \$2040-\$2520 for such position is reasonable and recommends that it be approved.

Approved.

Telegram to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Your letter April 4. Board approves use temporarily of the fourteen employees of Denver Branch to lend clerical assistance to your regular examiners in examinations of State member banks."

Approved.

Memorandum dated April 5, 1935, from the Committee on Salaries and Expenditures, submitting a letter dated March 27 from Mr. Coleman, Deputy Governor of the Federal Reserve Bank of Dallas, which requested a change in the personnel classification plan of the El Paso Branch to provide for a reduction in the salary range for the position of "Guard". The memorandum stated that the reduction is to bring the salary range for such position into line with that for the same position at the other branches of the bank, and that the Committee recommends that it be approved.

Approved.

4/9/35

-3-

Letter to the "United States National Bank in Johnstown",
Johnstown, Pennsylvania, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Pennsylvania, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the fiduciary powers granted by the Board. A formal certificate covering such authorization will be forwarded to you in due course."

Approved.

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

"Reference is made to your letter of March 12, 1935, with which was transmitted the application of 'The Miners' First National Bank of Ishpeming', Ishpeming, Michigan, for permission to act as executor, administrator, guardian of estates and committee of estates of lunatics, under authority of Section 11(k) of the Federal Reserve Act.

"Consideration has been given to the information submitted by you and by the Comptroller of the Currency, from which it appears that the applicant bank is in a generally satisfactory condition although its active management is subject to some criticism. It further appears, however, that the bank's officers, including the proposed trust officer, are lacking in experience in fiduciary matters; that the bank does not have any real need for trust powers, as evidenced by the fact that the predecessor bank although having trust powers apparently did not exercise them, and that the area, population and business interests of the bank's trade territory do not evidence any probability of

4/9/35

-4-

"supplying a volume of fiduciary business which would be profitable to the bank or enable it to employ an experienced trust officer, especially as trust services are available in nearby cities. In view of the foregoing situation and of your adverse recommendation, in which the Comptroller of the Currency concurs, the Board is unwilling to grant fiduciary powers to the institution at this time.

"You are requested, therefore, to advise The Miners' First National Bank of Ishpeming, Ishpeming, Michigan, that the Board has denied its application, but in the event that at any time in the future changing conditions modify the conclusions as set out in the preceding paragraph, it will be glad to reconsider the matter."

Approved.

Letter to "The National Deposit Bank in Owensboro", Owensboro, Kentucky, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kentucky, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the fiduciary powers granted by the Board. A formal certificate covering such authorization will be forwarded to you in due course."

Approved.

Letter to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of March 29, 1935, transmitting the request of the Bank of Canton, Canton, Georgia, for a further extension, to April 1, 1936, of the time within which it may, in accordance with the require-

4/9/35

-5-

"ments of membership condition numbered 17, dispose of the remainder of its holdings of stock of the Canton Cotton Mills, consisting of 110 shares and carried in the bank's investment account at \$150 per share. The Board has previously granted extensions from January 1, 1934, to October 1, 1934, and subsequently to April 1, 1935, within which the provisions of membership condition numbered 17 might be complied with and it is noted that the bank has disposed of only 10 shares of the stock in question since its admission to membership.

"It has been noted that the directors of the bank have reported that the committee appointed by them to dispose of the stock has been unsuccessful, although diligent efforts in this connection have been made, and that the bank feels that a forced sale of its holdings at this time could be made only at a price less than the actual value of the stock and would result in a needless loss to the bank.

"In view of all the circumstances, including your recommendation, and the fact that the State Superintendent of Banks has granted the institution permission to carry the stock until April 1, 1936, the Board extends to April 1, 1936, the time within which the Bank of Canton may comply with the provisions of membership condition numbered 17 and it is requested that you advise the bank accordingly. It has been observed that the directors of the institution are in accord with the Board's views with respect to the investment of banks' funds in corporate stocks and that every effort will be made to dispose of the stock in question before April 1, 1936. The Board trusts that the committee may be successful in its efforts within the time now allotted."

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 28, 1935, advising the Board, merely for its information, with regard to a possible situation which might arise in connection with the rehabilitation of the Bank of Auburn, Auburn, Pennsylvania, which was effected in the latter part of 1929 or the early part of 1930. It has been noted that you are clearly of the opinion that the charges which it appears may be preferred against Mr. Hill, Assistant Federal Reserve Agent, are absolutely unfounded. It has also been noted that

4/9/35

-6-

"the matter has been referred to the counsel for your bank, who has been in communication with representatives of the State Banking Department, and that it is apparently the view of that Department that there is nothing to be done with regard to the matter. It is assumed that you will keep in touch with the State Banking Department with regard to this matter and will advise the Board if there should be any further developments."

Approved.

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

"This refers to your letter of March 4, 1935 regarding the legality of the payment of interest by a member bank on demand deposits of the McAllen Independent School District and certain Water Control and Improvement Districts of the State of Texas. A copy of the opinion of your counsel on the subject was submitted with your letter.

"The right of a member bank to pay interest on demand deposits of Water Control and Improvement Districts of the State of Texas is the subject of your letter of February 27, 1935 and of the Board's reply thereto dated March 13, 1935.

"The Federal Reserve Board has carefully considered the opinion of your counsel that it is not lawful for a member bank to pay interest on demand deposits of independent school districts in the State of Texas. From the statutes quoted in your counsel's memorandum, it appears that in independent school districts of more than 150 scholastics and in all independent school districts created by act of the legislature prior to January 1, 1920 in counties that have a population of less than 3,340 'the treasurer (depository) of the school fund shall be that person or corporation who offers satisfactory bond and the best bid of interest on the average daily balances'.

"In accordance with previous rulings by the Federal Reserve Board upon similar statutes of other states, it is the opinion of the Board that the above quoted provision of Article 2832, Vernon's Annotated Texas Statutes, requires the payment of interest upon demand deposits by independent school districts of the kind described above.

"It is noted that your counsel states that he is reasonably sure that the McAllen Independent School District contains more than 150 scholastics. Accordingly, on the

4/9/35

-7-

"assumption that such is the fact, the Board is of the opinion that a member bank may lawfully pay interest on deposits of the McAllen Independent School District which are payable on demand. No opinion is expressed by the Board regarding the payment of interest upon funds of independent school districts to which the provisions of Article 2832 are not applicable."

Approved.

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

"The Board was recently advised informally that you have a representative in the Discount Department of your bank whose sole duties are to maintain joint custody with bank representatives of all notes and acceptances pledged to secure Federal Reserve notes and to maintain a record of such collateral.

"Such information as is available at the Board's offices indicates that in accordance with the Board's letter of August 9, 1917 (X-312), all other Federal Reserve agents have designated employees in the Discount Department to represent them in maintaining joint custody of collateral pledged with them as security for outstanding Federal Reserve notes and that when such employees are not engaged on work in connection with maintaining custody of collateral for the Federal Reserve Agent they perform other work in the Discount Department.

"If the advice received by the Board is correct it will be appreciated if you advise the Board whether it would not be practical to designate some employee to act for you in this connection who would devote his time to other work when his services were not required in receiving and releasing collateral and maintaining a record thereof."

Approved.

Memorandum dated March 29, 1935, from Mr. Parry, Chief of the Division of Security Loans, referring to his memorandum of December 19, 1934, with regard to margin requirements on daylight trades of specialists and floor traders, upon which action by the Board was still pending, and recommending that, in view of developments since the date

4/9/35

-8-

of the earlier memorandum, the matter be referred back to the staff for presentation to the Board at some later date in case action by the Board should be requested by the Securities and Exchange Commission.

Approved.

Letter dated April 8, 1935, approved by five members of the Board, to Mr. C. B. Eilenberger, Third Assistant Postmaster General, reading as follows:

"This refers to your letter of March 12, 1935, MO-M, with inclosures, regarding losses of certain postmasters due to abrasion upon shipments of gold coin made by them to Federal Reserve banks. At the suggestion of the Comptroller General of the United States that the matter of reimbursement on account of such losses would appear to be for consideration under the provisions of the Emergency Appropriation Act, fiscal year 1935, approved June 19, 1934, you have referred the matter to the Federal Reserve Board with a request that the postmasters involved be reimbursed from the appropriation cited.

"Inasmuch as the appropriation referred to is under the jurisdiction of the Treasury Department and any claims for reimbursement on account of losses sustained due to abrasion of gold coin must be settled by that Department, your letter, with inclosures, is this day being referred to the Secretary of the Treasury for his consideration."

Approved.

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

"Consideration has been given to the information submitted with your letter of March 29, 1935, regarding the applicability of section 32 of the Banking Act of 1933 to the service of Mr. Curtis E. Calder as a director of The National City Bank of New York, New York, New York, and as director of United States & International Securities Corporation.

4/9/35

-9-

"It appears that United States & International Securities Corporation is engaged in investing and reinvesting its funds and that purchases and sales of securities in the corporation's portfolio amounted to the following percentages of total assets, taken at cost, for the following years:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1930	20.99	17.33
1931	18.97	19.43
1932	17.53	22.64
1933	43.43	28.15

Average for period	24.89	21.65
--------------------	-------	-------

"It appears that the securities in the corporation's portfolio as of June 30, 1934 had been held for the following periods in the following percentages:

Held less than 6 months	5
Held 6 to 12 months	7
Held 12 to 18 months	10
Held 18 to 24 months	-
Held 24 months and over	<u>78</u>
	100

"It also appears that no shares or other securities of the corporation have been sold since 1928. During each of the past three years, the corporation has purchased in the open market and retired a portion of its first preferred stock.

"Since its organization the corporation has engaged in twelve transactions involving the issue, underwriting or distribution of securities. The Board feels that such transactions, when not entered into for the purpose of acquiring securities at a discount for investment, should not be regarded as merely incidental to the business of keeping assets invested to the best advantage, but, on the contrary, are characteristic of the principal type of organization which the Congress had in mind in enacting section 32. However, it appears that the corporation engaged in no transactions of this kind in 1931 or 1933, in only two such transactions in 1932, and in only one such transaction in 1934; and that the latter resulted in a profit of \$6,000, which was equal to less than 1 per cent of the income received by the corporation during 1934 from dividends and interest. Of course, if the activities of the corporation in this connection should increase materially in the future, a further question as to the applicability of section 32 might be raised.

4/9/35

-10-

"On the basis of the above information, the Board does not believe that United States & International Securities Corporation should be deemed to be engaged primarily in the business of purchasing, selling, or negotiating securities within the meaning of section 32, and it will be appreciated if you will advise Mr. Calder accordingly."

Approved.

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

"Consideration has been given to the additional information forwarded with your letter of March 26, 1935 in connection with the application of Mr. Bayard F. Pope under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as director and chairman of the Advisory Committee of The Marine Midland Trust Company of New York, New York, and as director of Selected Industries Incorporated, Jersey City, New Jersey. It is noted that, on the basis of the information which has now been submitted, you and counsel for your bank are of the opinion that section 32 should not be regarded as applicable to the relationships in question.

"It appears from the information which has been submitted that Selected Industries Incorporated is a so-called 'investment trust' engaged in investing and reinvesting its funds in securities. A statement of its investment policies has been submitted, accompanied by an analysis designed to show that only such changes are made in its investment portfolio as are required by a sound and conservative investment policy and that the corporation has not cared to attempt, nor considered itself equipped to attempt, to take advantage of market fluctuations to obtain speculative profits. It appears that purchases and sales of securities by the corporation during the past five years, omitting purchases and sales of United States Government securities and of the corporation's own shares, were equivalent to the following percentages of its total assets.

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1930	32.42	16.41
1931	28.52	34.30
1932	21.88	13.37
1933	35.30	36.37
1934	25.03	27.06
Average for period	28.63	25.50

4/9/35

-11-

"It further appears that the securities in the corporation's portfolio as of December 31, 1933 had been held for the following periods in the following percentages:

Held less than 6 months	23.54
Held 6 to 12 months	7.35
Held 12 to 24 months	9.28
Held over 24 months	<u>59.83</u>
	100.00

"It also appears that during the year 1934 the corporation took four syndicate participations. However, although each of these participations resulted in a profit, the total profit was equal to less than 4 per cent of the income of the corporation from dividends, interest, etc., during that year. Although the amount of such transactions in 1934 was small, a further question as to the applicability of section 32 might, of course, be raised if the volume of such transactions should increase materially in the future.

"It also appears that during the past two years the corporation has not purchased or sold any of its own shares or other securities and that such purchases and sales in 1932 were negligible in amount.

"As you know, the Board stated in its letter of October 20, 1934 that, on the basis of the information which had then been submitted, the provisions of section 32 were apparently applicable to the relationships covered by this application. The matters particularly referred to in the Board's letter were the relatively high rate of turnover in the corporation's portfolio, the absence of definite information regarding the periods during which securities had been held in the corporation's portfolio, and the fact that the corporation engaged in syndicate operations. As stated above, definite information has now been received regarding these last two matters. With respect to the rate of turnover, the revised figures which have been submitted are considerably lower than those which were the basis of the Board's earlier consideration. It appears that the difference results (a) from the inclusion of the year 1934 in the five-year period covered, and the corresponding omission of the year 1929, during which the purchases representing initial investment of the corporation's funds were made, (b) from the omission of purchases and sales of United States Government securities, which were manifestly not purchased for speculative purposes but in order to conserve idle funds awaiting investment in other securities, and (c) from the fact that the previous figures were calculated

4/9/35

-12-

"on the basis of the average value of the corporation's assets at the beginning and end of the respective years, whereas the revised figures are calculated on the basis of the cost of the portfolio. In view of the great decline in the general market value of securities, this last change has produced a considerable difference in the percentages shown, but it appears that, even if this change in basis had not been made, a rate of turnover of less than 50 per cent per year would have been shown.

"On the basis of the additional information which has been submitted, the Board is of the opinion that section 32 of the Banking Act of 1933 is not applicable to the relationships described in the first paragraph of this letter. Of course, this conclusion is equally applicable to Messrs. Curtis E. Calder, Eugene W. Stetson, and Harold E. Talbott, Jr., who have filed applications covering their services to Selected Industries Incorporated and various member banks. It will be appreciated if you will advise the applicants accordingly."

Approved.

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

"This refers to Mr. Fry's letters of February 16 and February 21, 1935, regarding certain directors and/or officers of national banks in your district who are serving the Warren-Rappahannock Trust Company, Front Royal, Virginia, apparently in violation of section 8A of the Clayton Antitrust Act and/or section 32 of the Banking Act of 1933.

"In his letter of February 21, 1935, Mr. Fry states that the State Banking Department has advised you that the Warren-Rappahannock Trust Company has surrendered its banking charter as of February 16, 1935, and since that date is operating as a mortgage company. However, it is not clear whether or not the trust company will make loans secured by stock or bond collateral within the meaning of section 8A of the Clayton Antitrust Act and whether it will sell mortgage bonds or other securities of the kinds referred to in section 32 of the Banking Act of 1933.

"It appears from Mr. Fry's letters that the parties involved have not been willing to furnish you with necessary information in response to his letters. However, it may be possible for you to obtain information from the State Banking

4/9/35

-13-

"Department regarding the powers which may be exercised by the trust company under the provisions of the charter under which it is now operating and as to whether it appears from the information in the possession of the State Banking Department whether or not the trust company now makes loans secured by stock or bond collateral or issues bonds in series against mortgages held in pools or deals in securities to any extent. If you do not obtain the necessary information in this manner, you may deem it advisable to have a representative of your office call upon the persons or the trust company involved for the purpose of obtaining the necessary information.

"When you have obtained such additional information in this matter as is practicable, please advise the Board, after consideration of the matter by your counsel, as to whether it appears that there are any violations of section 8A of the Clayton Antitrust Act or section 32 of the Banking Act of 1933 and give the Board your recommendation as to what action should be taken by the Board."

Approved.

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

"Reference is made to your letter of March 27, 1935, inclosing a letter dated March 25, 1935, from Mr. C. P. Klein, Chaska, Minnesota, requesting an amendment to his Clayton Act permit.

"On January 21, 1935, Mr. Klein was granted permission to serve at the same time as director and officer of The First National Bank of Chaska, Chaska, Minnesota, and as director of The Klein National Bank of Madison, Madison, Minnesota; and it is noted that he is now serving as president as well as director of The Klein National Bank of Madison and requests that his permit be amended accordingly.

"The Board has approved the request of Mr. Klein and there are inclosed the original and copies of an amended permit covering his present services as director and officer of The First National Bank of Chaska and as director and officer of The Klein National Bank of Madison, for the period ending January 14, 1936, for transmittal by you to Mr. Klein and the banks involved and a copy for your files.

"In view of the Board's letter of April 9, 1934 (X-7856), it is assumed that you are satisfied that Mr. Klein is not

4/9/35

-14-

"now serving any organization other than those which he listed in item 12 of F.R.B. Form 94 in his previous application and that no such organizations other than those indicated therein (item 13) make loans on stock or bond collateral; but it will be appreciated if you will advise the Board regarding this matter in order that its files may be complete. However, if Mr. Klein is serving any organization other than those listed in his previous application, please advise the Board regarding the matter and hold the permit pending further advice from the Board.

"Mr. Klein and the banks involved were advised upon the issuance of the previous permit dated January 21, 1935, as to the reason for the issuance of the permit so as to expire at the close of January 14, 1936."

Approved.

Letters to applicants for Clayton Act permits advising respectively, of the issuance of permits by the Board as follows:

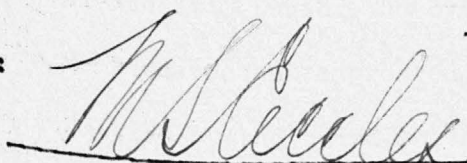
Mr. William V. Hodges, to serve at the same time as a director of The United States National Bank of Denver, Denver, Colorado, and as a director of The First National Bank of Fort Morgan, Fort Morgan, Colorado, for the period ending January 14, 1936.


Mr. John Kennedy, to serve at the same time as a director and officer of the National Bank of Commerce in Pawhuska, Pawhuska, Oklahoma, and as a director and officer of the Barnsdall State Bank, Barnsdall, Oklahoma, for the period ending January 14, 1936.

Approved.

Thereupon the meeting adjourned.

Approved:


Governor.


Secretary.