

A meeting of the Federal Reserve Board was held in Washington on Monday, April 29, 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:

Letter dated April 25, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegram dated April 26 from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, both advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated April 22, 1935, from Mr. Smead, Chief of the Division of Bank Operations, recommending approval of the appointment of Mrs. Evelyn Mae Matthews, as a stenographer in the Board's Division of Bank Operations, with salary at the rate of \$1,440 per annum, effective May 1, 1935, and with the understanding that it will not be necessary for Mrs. Matthews to take the usual physical examination inasmuch as she is already a member of the Federal Reserve Retirement System as an employee of the Federal Reserve Bank of Philadelphia. The recommendation was approved by four members of the Board on April 26.

Approved.

Telegram to Governor Calkins of the Federal Reserve Bank of San

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Francisco, reading as follows:

"Your wire April 24. In connection with suggested appointment of alternate members of Industrial Advisory Committees in certain other Federal Reserve Districts, Board has taken position that, in view of fact that section 13b of Federal Reserve Act does not authorize appointment of alternate members and also in view of requirement that Committee be composed of not less than three nor more than five members, it is not believed that alternates for members of such Committees may legally be appointed. It is hoped that it will be possible for members of your Industrial Advisory Committee so to arrange their affairs and the work of the Committee that there will be a minimum of interruption or delay in the handling of applications submitted to the Committee for consideration."

Approved.

Letter to the Miners Bank and Trust Company, Butte, Montana, reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise fiduciary powers, and grants you authority, effective if and when the Miners Bank and Trust Company, Butte, Montana, is converted into a national banking association and is authorized by the Comptroller of the Currency to commence business as 'The Miners National Bank of Butte', 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 Montana, 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.

"After the conversion of the Miners Bank and Trust Company into The Miners National Bank of Butte becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, the board of directors of the latter bank should adopt a resolution ratifying the action taken on its behalf by your bank in making application for permission to exercise trust powers, and it is requested that a certified copy of the resolution so adopted be sent to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, who will forward it to the Federal Reserve Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering your authority to exercise trust powers will be sent to you."

Approved.

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Letter dated April 26, 1935, approved by three 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 Saint Paris', St. Paris, Ohio, from \$52,100 to \$50,000, pursuant to a plan which provides for the consolidation of the subject bank and the Central National Bank of St. Paris under the charter of The First National Bank and under the corporate title of 'The First Central National Bank of St. Paris', all as set forth in your memorandum of April 17, 1935."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Grundy County National Bank', Morris, Illinois, from \$150,000 to \$100,000, pursuant to a plan which provides that the released capital, together with the bank's undivided profits and a local contribution of \$60,000, shall be used to eliminate unsatisfactory assets and to create a surplus fund of \$20,000. It is understood also that the plan provides for the retirement of \$200,000 of outstanding 6% cumulative preferred stock, the issuance of \$100,000 of new 3½% cumulative preferred stock and for the trusteeing of all eliminated assets, together with items previously charged off, for the benefit of contributors of the \$60,000 until such time as they are reimbursed to the extent of \$60,000, plus interest at 3½%, after which all additional recoveries will revert to the bank, all as set forth in your memorandum of April 19, 1935."

Approved.

Letter dated April 26, 1935, approved by four 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 the application of Montclair Trust Company, Montclair, New Jersey, for a voting permit authorizing it to vote the stock which it owns or controls of First

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"National Bank of Cedar Grove, Cedar Grove, New Jersey. Reference is also made to your letter of March 12, 1935, relative to the possible termination of the holding company affiliate relationship.

"The Board understands that First National Bank of Cedar Grove has outstanding 1000 shares of common stock and 625 shares of preferred stock; that Montclair Trust Company owns or controls 501 shares of the common stock; that the Reconstruction Finance Corporation owns 615 shares of preferred stock; that at the last election of directors 392 shares of the common stock and all of the preferred stock was voted; that none of the stock owned or controlled by Montclair Trust Company was voted at that election; that the stock owned by the Reconstruction Finance Corporation was voted by its proxy who had no connection with Montclair Trust Company or First National Bank of Cedar Grove other than that of a stockholder of the latter institution; that the proxy executed by the Reconstruction Finance Corporation was revocable and authorized the voting of the stock only at that meeting or adjournments thereof; and that the instructions given by the Reconstruction Finance Corporation to its proxy were in part as follows:

'The proxy which is enclosed, authorizes and directs you as to your vote on certain matters which may come before the meeting, and in voting, the provisions of the proxy should be strictly observed. You will see that the proxy contains no specific directions with reference to voting for directors and other routine matters. Generally speaking, it is the desire of the Corporation not to oppose the holders of a majority of the stock (exclusive of stock held by this Corporation) in the election of directors. You are instructed to be cooperative with the holders of the majority of voting stock, held by others than this Corporation, to the end that the policies and plans of that majority in the selection of directors and the conduct of the bank's affairs may be effectuated, but this instruction does not mean that you should sanction any action that is clearly inimical to the interests of this Corporation and you should follow the express instructions of the proxy as to the matters therein set forth.'

"On the basis of these facts, the Board agrees with your conclusion that Montclair Trust Company is not now a holding company affiliate of First National Bank of Cedar Grove and accordingly it is assumed that no further consideration need be given to the application for a voting permit filed by Montclair Trust Company. If, however, there are any further facts which you believe should be called to the Board's attention in this

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"connection the Board will be glad to give further consideration to the matter. In the absence of any such further facts, please advise Montclair Trust Company accordingly. If the Reconstruction Finance Corporation should at any time issue a proxy to the Montclair Trust Company or to a person under its control, to vote the preferred stock of First National Bank of Cedar Grove which is owned by the Reconstruction Finance Corporation, a further question as to whether Montclair Trust Company would then be a holding company affiliate of the member bank might be presented and you are requested to call this fact to the attention of Montclair Trust Company."

Approved.

Letter dated April 26, 1935, approved by four 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 the application of Port Washington National Corporation, Port Washington, New York, for a voting permit authorizing it to vote the stock which it owns or controls of The Harbor National Bank of Port Washington, Port Washington, N. Y. Reference is also made to Mr. Gidney's letter of March 28, 1935, relative to the possible termination of the holding company affiliate relationship.

"The Board understands that The Harbor National Bank of Port Washington has outstanding 500 shares of common stock and 500 shares of preferred stock; that Port Washington National Corporation owns or controls 252 shares of the common stock; that the Reconstruction Finance Corporation owns all of the preferred stock; that 139 shares of common stock and all of the preferred stock was voted at the last election of directors; that none of the stock owned or controlled by Port Washington National Corporation was voted at that election; that the stock owned by Reconstruction Finance Corporation was voted by its proxy who had no connection either with Port Washington National Corporation or The Harbor National Bank of Port Washington; that the proxy executed by the Reconstruction Finance Corporation was revocable and authorized the voting of the stock only at that meeting or adjournments thereof; and that the instructions given by the Reconstruction Finance Corporation to its proxy were in part as follows:

'The proxy which is enclosed, authorizes and directs you as to your vote on certain matters which may come before the meeting, and in voting, the provisions of the proxy should be strictly observed.

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"You will see that the proxy contains no specific directions with reference to voting for directors and other routine matters. Generally speaking, it is the desire of the Corporation not to oppose the holders of a majority of the stock (exclusive of stock held by this Corporation) in the election of directors. You are instructed to be cooperative with the holders of the majority of voting stock, held by others than this Corporation, to the end that the policies and plans of that majority in the selection of directors and the conduct of the bank's affairs may be effectuated, but this instruction does not mean that you should sanction any action that is clearly inimical to the interests of this Corporation and you should follow the express instructions of the proxy as to the matters therein set forth.'

"On the basis of these facts, the Board agrees with Mr. Gidney's conclusion that the Port Washington National Corporation is not now a holding company affiliate of The Harbor National Bank of Port Washington, and, accordingly, it is assumed that no further consideration need be given to the application for a voting permit filed by Port Washington National Corporation. If, however, there are any further facts which you believe should be called to the Board's attention in this connection the Board will be glad to give further consideration to the matter. In the absence of any such further facts, please advise Port Washington National Corporation accordingly. If the Reconstruction Finance Corporation should at any time issue a proxy to Port Washington National Corporation, or to a person under its control, to vote the preferred stock of The Harbor National Bank of Port Washington which is owned by the Reconstruction Finance Corporation, a further question as to whether Port Washington National Corporation would then be a holding company affiliate of the member bank might be presented and you are requested to call this fact to the attention of Port Washington National Corporation."

Approved.

Letter dated April 26, 1935, approved by four members of the Board, to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

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"Reference is made to the application of The Diversified Holding Company, Galion, Ohio, for a voting permit authorizing it to vote the stock which it owns or controls of First National Bank in Crestline, Crestline, Ohio.

"The Board understands that First National Bank in Crestline has outstanding 700 shares of common stock and 400 shares of preferred stock; that The Diversified Holding Company owns or controls 249 shares of the common stock; that the Reconstruction Finance Corporation owns all of the preferred stock; that 421 shares of common stock and all of the preferred stock was voted at the last election of directors; that The Diversified Holding Company voted the stock which it owns or controls at that election; that the stock owned by the Reconstruction Finance Corporation was voted by its proxy who had no connection with either The Diversified Holding Company or First National Bank in Crestline other than that of a stockholder of the latter institution; that the proxy executed by the Reconstruction Finance Corporation was revocable and authorized the voting of the stock only at that meeting or adjournments thereof; and that the instructions given by the Reconstruction Finance Corporation to its proxy were in part as follows:

'You will note that the proxy form contains no specific directions with reference to voting for directors or other routine matters. As a proxy of the Reconstruction Finance Corporation, you are instructed to be cooperative with the holders of the majority of voting stock, held by others than this Corporation, to the end that the policies and plans of that majority in the selection of directors and the conduct of the bank's affairs may be effectuated and you, therefore, should ascertain what names are likely to receive the support of such majority in the election of directors and to cast your vote in their favor. Such limitation on your power may be disregarded in instances where action is proposed clearly inimical to the interests of this Corporation.'

"On the basis of these facts, the Board is of the opinion that The Diversified Holding Company is not now a holding company affiliate of First National Bank in Crestline and, accordingly, it is assumed that no further consideration need be given to the application for a voting permit filed by The Diversified Holding Company. If, however, there are any further facts which you believe should be called to the Board's attention in this connection the Board will be glad to give further consideration to the matter. In the absence of

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"any such further facts, please advise The Diversified Holding Company accordingly. If the Reconstruction Finance Corporation should at any time issue a proxy to The Diversified Holding Company, or to a person under its control, to vote the preferred stock of First National Bank in Crestline which is owned by the Reconstruction Finance Corporation, a further question as to whether The Diversified Holding Company would then be a holding company affiliate of the member bank might be presented and you are requested to call this fact to the attention of The Diversified Holding Company."

Approved.

Letter dated April 26, 1935, approved by three members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of April 17, 1935, inclosing copies of a limited voting permit issued to First Bank Stock Corporation, Minneapolis, Minnesota, authorizing it to vote the stock which it owns or controls of The First National Bank of Rolla, Rolla, North Dakota, and The First National Bank of Leola, Leola, South Dakota.

"The Board's telegram of April 16, 1935, authorizing the issuance of this permit, provided that such stock might be voted for certain purposes at any time prior to July 1, 1935, the telegram reading in part as follows:

'D. At any time prior to July 1, 1935: (1) To act upon proposals to authorize or ratify the execution of a contract or contracts for the sale of the assets of such banks, to place such banks in voluntary liquidation and to take such further action as is necessary to effect such sale of assets and liquidation; provided that all action taken shall be in accordance with a plan or plans which shall have been approved by the Comptroller of the Currency and shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis; (2) to elect directors of The First National Bank of Rolla and to act upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.'

"However, it appears that the expiration date was not stated in the voting permit. In view of the limited authority granted by the Board the voting permit will not be valid as to any vote taken on or after July 1, 1935, and it is suggested

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"that you advise First Bank Stock Corporation accordingly. If the stockholders' meetings have not been held, you may deem it advisable to request First Bank Stock Corporation to return the voting permit previously issued and to issue a new permit stating the expiration date. In any event it would appear desirable to request that the voting permit be surrendered after July 1, 1935, if the banks in question are not placed in liquidation prior to that date. Please advise the Board with respect to any action taken in this matter."

Approved.

Letter dated April 26, 1935, approved by three 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 April 19, 1935, inclosing a copy of a letter, dated April 16, 1935, from Jacob Embry, Vice President of 'Commercial National Bank in Shreveport', Shreveport, Louisiana, in which it was requested that a limited voting permit be issued authorizing Commercial National Bank in Shreveport to vote the stock of 'Continental-American Bank and Trust Company', Shreveport, Louisiana, for the purpose of issuing \$250,000 of 3½% preferred stock to the Reconstruction Finance Corporation and retiring \$250,000 of 4% capital notes of such bank.

"The Board has considered this request and authorizes the issuance of a voting permit which shall entitle Commercial National Bank in Shreveport to vote the stock which it owns or controls of Continental-American Bank and Trust Company for the following limited purposes:

At any time prior to July 1, 1935, to act upon a proposal to issue \$250,000 preferred stock of such bank and to make such amendments to the articles of incorporation, charter, and/or by-laws of such bank as shall be necessary to effect such change in capitalization, all in accordance with a plan satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Dallas and approved by the appropriate supervisory authorities.

"The report of examination of the subsidiary bank as of February 5, 1935, showed net appreciation in securities, and the bank informed you, under date of March 6, 1935, that all estimated losses, amounting to \$50,771.87, had been eliminated. The report of examination of the applicant bank, as of March 1, 1935, showed appreciation in securities and no estimated losses.

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"In the circumstances, no requirements are made in connection with the authorization of the permit.

"Please have the permit authorized herein prepared by counsel for the Federal Reserve Bank of Dallas 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."

Approved.

Letter dated April 27, 1935, approved by six members of the Board, to Senator Duncan U. Fletcher, reading as follows:

"This refers to your letter of April 17, 1935, with which you inclosed a letter from Mr. Bion H. Barnett, Chairman of the Board of the Barnett National Bank, Jacksonville, Florida, in which he calls attention to section 323(a) of the proposed Banking Act of 1935 which would authorize the Federal Reserve Board 'to determine what shall be deemed to be a payment of interest'.

"In endeavoring to administer the amendment to the Federal Reserve Act contained in the Banking Act of 1935 which provides that 'no member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand', the Federal Reserve Board has been confronted with a number of questions of considerable difficulty as to what constitutes a payment of interest within the meaning of this clause. For example, it has been called upon to state its view as to whether and in what circumstances the absorption of exchange or collection charges on deposited items, the failure to impose service charges on accounts, the payment of premiums on surety bonds required as security for deposits, and the absorption of State taxes on deposits, constitute the payment of interest on deposits payable on demand within the meaning of the provision quoted. In considering such questions the Federal Reserve Board has had no discretion of any kind in undertaking to state what is a payment of interest but has been bound by strictly legal considerations as to the nature of interest. In this connection it is to be observed that the law does not prohibit all payments in connection with deposits payable on demand but merely prohibits payments of interest. Accordingly, it has been necessary to try to determine in each case whether the payment in question is of such a character as to constitute interest. As a result some of the rulings which it has been necessary for the Board to make in this connection have not been altogether satisfactory and have been the cause of difficulties to member banks which it is believed might other-

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"wise have been avoided. This problem has proved to be one of the most difficult arising under the Banking Act of 1933.

"It is for the purpose of enabling the Federal Reserve Board to take into consideration the practical aspects of the subject in determining these close questions as to what is interest in circumstances such as those mentioned and in other similar cases, that the proposed Banking Act of 1935 would authorize the Board to 'determine what shall be deemed to be a payment of interest'. It is believed that enactment of this provision would enable the Board to exercise a limited discretion in these matters which would result in a more practical administration of the law and would be more satisfactory to the member banks, which are, of course, primarily concerned.

"Mr. Barnett appears to feel that member banks should not be permitted to absorb any exchange charges or other out-of-pocket expenses in connection with deposits payable on demand. The Board has felt that it has no authority under existing law to take such a position. While it cannot be stated at this time just what modifications may be made in existing rulings with respect to this question if the provision in question is enacted, it is hoped that it will be possible to put the matter of absorption of out-of-pocket expenses on a more practicable and satisfactory basis than now exists.

"Mr. Barnett also suggests that the provision above quoted in the proposed Banking Act of 1935 may be invalid. In this connection it appears that the provision is not intended to confer upon the Federal Reserve Board an arbitrary power to declare to be interest or a payment of interest something which obviously has no relation to interest, or vice versa, but that it is intended to give the Board a limited authority or discretion in its administration of the law to determine, within reasonable limitations and in accordance with what appears to be the intention of Congress as indicated by a reading of all of the provisions of the law relating to interest, what type of payment or compensation given by a bank to a customer is of such a character as to be regarded as a payment of interest, particularly in those cases where the question is close and doubtful and is influenced largely by practical considerations. It is believed, therefore, that the provision in question would be a valid enactment.

"Mr. Barnett's letter is returned herewith for your files."

Approved.

Telegram dated April 26, 1935, approved by four members of the Board, to Governor Calkins, Chairman of the Governors' Conference, read-

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ing as follows:

"Reference is made to your April 11 letter forwarding copy of report from Insurance Committee of Governors Conference on certain questions raised by Board in regard to registered mail insurance. Board received, under date of April 22, letter from Treasury Department stating it is preparing to call, at an early date, for new bids for furnishing insurance policies covering Governmental shipments of currency, coin, bullion, securities, etc. for fiscal year 1936. It is suggested, therefore, that copies of committee's report be sent to all Reserve banks with request that Board be furnished their views thereon as soon as practicable. Board will now advise Treasury that it has received report of Insurance Committee of Governors Conference recommending that all movements of new Federal Reserve notes between Washington and Federal Reserve banks and their branches be covered by their own insurance policies, and that matter will be taken up with Treasury as soon as views of Federal Reserve banks thereon are obtained."

Approved.

Memorandum dated April 25, 1935, from Mr. Morrill, stating that there had come to Governor Eccles' attention evidence of some misunderstandings of the testimony given by him at the recent hearings before the House Banking and Currency Committee on Title II of the proposed Banking Act of 1935, and in order that member banks may have accurate information available to them with regard to his statement before the Committee, he had had prepared a digest of his testimony, copies of which he desired to send to the Federal reserve banks and the member banks of the Federal Reserve System, and to such other persons as might be interested. The memorandum also stated that bids have been obtained from the Government Printing Office and from two outside printing concerns and, upon recommendation by Mr. Goldenweiser, the Governor suggested that the low bid by the National Capital Press of \$473.00 for 5,000 copies and \$43.75 for each

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additional 1,000 copies be accepted. The recommendation was approved by three members of the Board on April 26.

Approved.

Letter dated April 26, 1935, approved by six members of the Board, to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of November 30, 1934, raising a question of policy with respect to the circumstances and conditions under which clearing accounts of nonmember banks should be accepted under the authority of Section 13 of the Federal Reserve Act. It appears that in the particular case referred to in your letter the nonmember bank is not at present eligible for membership, that it does not need the Federal Reserve facilities for exchange and collection purposes as it may use the facilities of its correspondent downtown Chicago bank to the same end, and that it desires to obtain the clearing privileges at the Federal Reserve bank for the purpose of avoiding exchange and collection charges now made by its correspondent.

"In your letter you asked, first, whether your bank was out of line with the other Reserve banks in its general policy with respect to the acceptance and rejection of clearing accounts. Following the receipt of your inquiry the Board sent out a letter, B-1044, under date of December 20, 1934, to the chairmen of all other Reserve banks, requesting of each of them a statement showing the extent to which nonmember clearing accounts were being carried, the circumstances under which they were opened, and the policy followed by the Reserve bank in accepting or refusing to accept clearing accounts of nonmember banks. For your information there is inclosed a summary of the replies of the respective Federal Reserve banks, together with a table showing the number of such accounts and the average balances therein during the month of November 1934.

"With respect to your second question, whether the Board deems it wise for you to change your policy in cases where banks have applied for membership but have not yet been admitted, it is the Board's view that requests for the establishment of clearing accounts by nonmember banks should be passed upon by your directors in the light of all the circumstances surrounding each application. In view, however, of the provisions of existing law which makes membership in the System mandatory after July 1, 1937 for all banks whose deposits are insured by the Federal Deposit Insurance Corporation, the Board feels that a liberal attitude should be taken toward such applications pro-

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"vided, of course, the bank agrees to comply with the applicable provisions of the Federal Reserve Act and the rules and regulations issued thereunder."

Approved, together with a letter, also dated April 26, 1935, and approved by six members of the Board, to all chairmen of Federal reserve banks except Chicago, transmitting a copy of the letter to Mr. Stevens.

In connection with the above matter consideration was given to a memorandum dated April 11, 1935, from Mr. Smead, Chief of the Division of Bank Operations, stating that the replies received from the Federal reserve banks to the Board's letter of December 20, 1934 (B-1044), show that many of the nonmember clearing accounts now maintained with the Federal reserve banks are not being currently used solely for purposes of exchange or collection as required by section 13 of the Federal Reserve Act, and that the Federal Reserve Bank of New York was maintaining clearing accounts for three private financial institutions, but that in view of the fact that all insured banks must be members of the Federal Reserve System after July 1, 1937, it was assumed that the Board did not wish to require the Federal reserve banks to discontinue any of the nonmember clearing accounts even though they were not at present being actively used solely for exchange or collection purposes.

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

"This is in reply to your memorandum of April 19, 1935, referring to loans which The Union National Bank of Providence, Providence, Kentucky, has made to two of its affiliated companies. Your memorandum relates that these loans are secured by preferred stock of one of the affiliates in an amount having an estimated market value in each case of at

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"least 40 percent more than the amount of the loan and that such stock is claimed 'to amply secure' the loans. You refer to a ruling of the Board appearing at page 566 of the Federal Reserve Bulletin for September, 1933, with respect to the provisions of the second paragraph of section 23A of the Federal Reserve Act which deal with the manner in which loans by member banks to their affiliates must be secured. In this ruling, the Board indicated its opinion that these provisions of section 23A referred to obligations for which there are sufficient price quotations on the open market to permit the determination of their market value with reasonable accuracy. Your memorandum also states that there is no active market for the preferred stock which is collateral for the loans referred to as none of the shares of that issue of stock is for sale. In these circumstances you request an opinion of the Board as to whether, under the above-mentioned provisions of section 23A, the preferred stock is eligible as collateral for the loans.

"As stated, in its earlier ruling which dealt with real estate loans, the Board suggested the necessity of available market quotations as a requisite for eligibility as collateral under the provisions of section 23A. The Board did not mean to imply, however, that a security may serve as collateral for the purposes of this provision only if with respect to it there are continuous offers to buy and to sell. It is recognized that, even with respect to fairly active securities traded in on an over-the-counter basis, periods of time may elapse during which there will be an absence of bids or offers. In the absence of specific facts it is difficult to identify the evidences of value which might be accepted in lieu of price quotations on the open market, but in general it may be said that if there is available sufficient information with respect to the stock or obligations in question to afford a satisfactory indication of the price which they might reasonably be expected to command if offered for sale, such stock or obligations may be regarded as eligible as collateral for loans to affiliates under the provisions of section 23A.

"The Board is unable to give a specific answer to the question whether the preferred stock referred to in your memorandum may be used as collateral for loans to affiliates in the absence of a more complete statement of facts, including information upon a variety of factors such as the respective dates on which the loans were made, the number and amount of shares outstanding, the frequency of sales, and whether or not the stock is dealt in by local brokers or others. What has been said above, however, may serve to give a general indication of the views of the Federal Reserve Board as to the proper interpretation of the pertinent provisions of section 23A of the

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"Federal Reserve Act.

"Of course the fact that the preferred stock in question is that of one of the affiliated companies may have a bearing upon the desirability of such stock as security for a loan to the affiliates of the member bank."

Approved.

Letter dated April 26, 1935, approved by three members of the Board, to the governors of all Federal reserve banks reading as follows:

"The attention of the Federal Reserve Board has recently been called to the provisions of section 239 of the Criminal Code of the United States (U.S.C. Title 18, section 389) which makes it unlawful for a railroad company, express company, or other person, in connection with the transportation of intoxicating liquor in interstate commerce, to collect the purchase price thereof or act as the agent of the buyer or seller for the purpose of buying or selling or completing the sale thereof. The statute in question reads as follows:

'Sec. 389. (Criminal Code, section 239). Same; carrier collecting purchase price of interstate shipment. Any railroad company, express company, or other common carrier, or any other person who, in connection with the transportation of any spirituous, vinous, malted, fermented, or other intoxicating liquor of any kind, from one State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, into any other State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, or from any foreign country into any State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, shall collect the purchase price or any part thereof, before, on, or after delivery, from the consignee, or from any other person, or shall in any manner act as the agent of the buyer or seller of any such liquor, for the purpose of buying or selling or completing the sale thereof, saving only in the actual transportation and delivery of the same, shall be fined not more than \$5,000. (Mar. 4, 1909, c. 321, sec. 239, 35 Stat. 1136.)'

"This statute was enacted in 1909 but appears to be still in force and effect. It was held in a decision of the Supreme Court of the United States in 1919 (*Danciger v. Cooley*, 248 U.S. 319) that this statute was applicable not only to railroad

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"and express companies but to all persons committing the acts described therein. Accordingly, it would appear to be unlawful for banks, in connection with the transportation of liquor in interstate commerce, to 'collect the purchase price' thereof or to 'act as the agent of the buyer or seller' for the purpose of completing the sale of such liquor.

"A bill, S. 11, has been introduced in Congress to repeal the statute above quoted but has not been enacted into law.

"This matter is brought to your attention for the information and guidance of your bank in accepting for collection drafts covering the purchase price of liquor."

Approved.

Letter dated April 26, 1935, approved by three members of the Board, to Mr. Peyton R. Evans, General Solicitor, Farm Credit Administration, in regard to the case of H. B. Macklin v. Federal Intermediate Credit Bank of Columbia, and reading as follows:

"Receipt is acknowledged of your letter of April 22, 1935, with which was inclosed a copy of a letter, dated April 20, 1935, from Mr. J. E. Cagle, President of the Federal Intermediate Credit Bank of Columbia, South Carolina, addressed to Mr. George M. Brennan, Intermediate Credit Commissioner, both of which refer to the request of the Federal Intermediate Credit Bank of Columbia for permission to use the services of Mr. C. E. Cagle, Federal Reserve Examiner, as a witness in behalf of the bank in the above styled case, set for trial at Columbia, on May 13, 1935. It is observed that you will arrange, if possible, to have Mr. Cagle testify on a certain day so that he may not be required to be in constant attendance during the whole trial.

"The Board is pleased to cooperate with the Farm Credit Administration in this matter and will grant Mr. Cagle the necessary leave of absence to testify on behalf of the bank, with the understanding, as you have stated in your letter, that arrangements will be made by the Federal Intermediate Credit Bank for the payment of his necessary traveling expenses while away from Washington. Inasmuch as Mr. Cagle is presently engaged in some very important work for the Board, it will be very much appreciated if the period of required attendance can be confined to the day fixed for his appearance."

Approved.

Letter dated April 26, 1935, approved by five members of the Board, to an applicant for a Clayton Act permit advising of the issuance of a

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permit by the Board as follows:

Mr. L. D. Edgington, to serve at the same time as a director and officer of The First National Bank at Ponca City, Ponca City, Oklahoma, as a director and officer of The First National Bank in Tonkawa, Tonkawa, Oklahoma, and as a director of The National Bank of Commerce of Hominy, Hominy, Oklahoma, for the period ending January 14, 1936.

Approved.

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

Mr. Fred J. Mohr, to serve at the same time as a director and officer of The First National Bank of Fessenden, Fessenden, North Dakota, as a director and officer of the First National Bank in Drake, Drake, North Dakota, and as a director and officer of the Citizens State Bank, Enderlin, North Dakota, for the period ending January 14, 1936.

Approved.

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

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u> The Forest Hill State Bank, Forest Hill, Maryland.	8	8
<u>District No. 12.</u> Yakima Valley Bank and Trust Company, Yakima, Washington.	42	42
	<hr/> Total	<hr/> 50
 <u>Applications for SURRENDER of Stock:</u>		
<u>District No. 2.</u> Bank of New York and Trust Company, New York, New York.	600	600
<u>District No. 8.</u> The Farmers National Bank of Princeton, Princeton, Kentucky.	12	12
	<hr/> Total	<hr/> 612

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Approved.

Thereupon the meeting adjourned.

Robert M. Houder
Secretary.

Approved:

W. S. Stearns
Governor.