

A meeting of the Federal Reserve Board was held in Washington on Tuesday, May 21, 1935, at 11:30 a.m.

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

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

The Board acted upon the following matters:

Memorandum dated May 15, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the permanent appointment of Mrs. Constance Seals, who has been employed on a temporary basis as a clerk in the division since December 26, 1934, effective as of the date upon which she passes a satisfactory physical examination, and with no change in her present salary at the rate of \$1,440 per annum.

Approved.

Memorandum dated May 14, 1935, from the Committee on Salaries and Expenditures, submitting a letter dated May 10 from Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, which requested approval of a change in the personnel classification plan of Oklahoma City Branch of the bank to provide for the new position of "Assistant Teller and Clerk" in the Currency and Coin Department. The memorandum stated that the proposed change was necessary because of a rearrangement of the work in the money department and that the Committee recommended that

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it be approved.

Approved.

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

"This refers to your letter of May 14, 1935 regarding the question whether one of the directors of the Federal Reserve Bank of Minneapolis may lawfully serve an additional term upon the expiration of his present term on December 31 of this year in the event that the proposed Banking Act of 1935 is enacted, and inclosing a copy of an opinion of your counsel on the question.

"We appreciate your bringing this matter to our attention, and consideration will be given to the desirability of suggesting an amendment to the provisions of the Banking Bill relating to this subject which will clear up any doubt on the question which you raise. In view of the fact that the bill is still pending before Congress and in view also of the possibility of an amendment to the provision in question, the Board prefers not to undertake to express an opinion on the question unless and until the proposed Banking Act of 1935 is enacted into law."

Approved.

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

"Reference is made to your letter of May 6 regarding proposed increases in salaries of certain employees whose annual compensation is not in excess of \$2,000.

"The Federal Reserve Board has carefully noted the statements contained in your letter and in your letter of the same date comparing salaries at your bank and branches with those paid by member banks in Dallas, El Paso, Houston and San Antonio. In view of the fact that, according to Governor McKinney's report to the directors at their March 12 meeting, it appears some of the employees are inadequately paid in the light of present living costs, the Board interposes no objection to the proposed increases. It is assumed

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"that all of the proposed salaries are within the salary ranges provided in the Personnel Classification Plan for the positions occupied and that they will not be in excess of salaries paid by local member banks for comparable work.

"It is noted from your letter that after these adjustments are made the average salary rate for your bank will be slightly below the average as of January 1, 1934, but it would appear that the proposed increase of 1.4 percent in your average salary rate as compared with the rate on January 1, 1935, will result in a rate somewhat above the average for the Federal Reserve System as a whole.

"In connection with your statements relating to the average salary of employees at the Dallas bank as compared with the average salaries paid by other Federal Reserve banks, so many factors affect salary levels, such as differences in living costs, differences in the salaries paid by local banks, and differences in the type of personnel employed, that it would appear difficult to determine the extent to which the average salary paid by one Federal Reserve bank may properly exceed that paid by another. In this connection it is noteworthy that the Head Office of the Federal Reserve bank of Atlanta with 287 employees as of January 1, 1935, and with four branches and two agencies, had an average salary of \$1,484, about \$100 below the System average, as compared with an average salary of \$1,651 for the same number of employees, 287, at the Head Office of the Federal Reserve Bank of Dallas. The Federal Reserve bank of Atlanta, including its four branches and two agencies, had 555 employees on January 1, 1935, to which it paid an average salary of \$1,344, approximately the same as the lowest average salary paid by any Federal Reserve bank."

Approved.

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

"There is transmitted herewith for your consideration an application of the 'Old Kent Bank', Grand Rapids, Michigan, a member bank, for permission to establish a branch at Wyoming Park, Michigan, after absorbing the Wyoming Park State Bank, located at Wyoming Park, Michigan. The Wyoming Park State Bank is controlled by the Old Kent Bank through the ownership of more than 50% of the outstanding common capital stock and a majority of the directors of the Wyoming Park State Bank are

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"directors and officers of the Old Kent Bank.

"Wyoming Park is a suburban municipality adjacent to Grand Rapids and has a population of 1,800 inhabitants. The Wyoming Park State Bank is the only banking institution in this community and its volume of business would indicate that it could be profitably operated as a branch of the Old Kent Bank.

"At the present time the Old Kent Bank is operating 13 branches, all located within the city limits of Grand Rapids.

"It is stated that the Commissioner of Banking of the State of Michigan cannot give formal approval of the establishment of the branch until the merger has become legally effective but the Federal Reserve Agent's office has been informed that the Commissioner is in agreement with the program as outlined. The Assistant Federal Reserve Agent at Chicago recommends approval of the application.

"According to the information submitted, it appears that the condition of the Old Kent Bank is such as to warrant favorable consideration of the application and, therefore, it is recommended that you approve the establishment and operation of a branch in Wyoming Park by the Old Kent Bank on condition that:

1. The establishment and operation of a branch at Wyoming Park, Michigan, by the Old Kent Bank shall be approved by the appropriate State authorities.

"The attached file includes a copy of the report of examination of the Old Kent Bank, as of February 25, 1935, and a copy of a memorandum prepared by the Board's Division of Examinations. It will be appreciated if you will return this file when it has served your purpose and when you advise the Board of your action on the application."

Approved.

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

"Reference is made to the transaction whereby the 'First State Bank of Matador', Matador, Texas, acquired assets from, and assumed the deposit liabilities of The First National Bank of Matador, Matador, Texas, effective as of May 25, 1934.

"The Board has reviewed the information submitted in your letter of June 12, 1934, and April 29, 1935, together with the condition of the First State Bank of Matador as re-

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"flected in the report of examination as of December 8, 1934, from which it appears that the transaction has resulted in no material change in the general character of the assets of, or broadening in the scope of the functions exercised by, the State member institution within the meaning of the general condition under which it was admitted to membership in the Federal Reserve System.

"In the circumstances and in view of your recommendation, the Board will take no action affecting the membership of the First State Bank of Matador in the Federal Reserve System by reason of the transaction."

Approved.

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

"Reference is made to your letter of May 10, 1935, transmitting copies of correspondence between you and the cashier of the 'Citizens State Bank', Osage City, Kansas, regarding an increase in the bank's capital and surplus in order to comply with condition of membership numbered 15.

"According to the report of examination of the bank as of October 17, 1934, made by your examiners, the bank had capital stock and surplus of \$40,000 and a net sound capital of \$44,000, as compared with deposits of \$459,000. The analysis of the report of examination of the bank as of April 3, 1935, made by State examiners, shows a capital stock and surplus of \$40,000 and a net sound capital of \$48,300, as compared with deposits of \$499,500.

"It has been noted that in your letter of May 10, 1935, to the cashier of the bank you stated that you did not anticipate that the Board would insist on any immediate increase in capital structure in view of the rather unusual conditions existing at this time. In view of the circumstances and the sound condition of the bank's assets as reflected by the examinations referred to, the Board will not require the bank to increase its capital stock and surplus at this time. It has been noted, however, that the deposits of the bank have increased from \$302,000 on May 23, 1933, date of the examination made in connection with the bank's application for membership, to \$499,500 on April 3, 1935, and it will be expected that the directors of the bank will bear in mind the necessity of maintaining an adequate capital

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"ratio. Please advise the bank accordingly.

"You are requested to review the situation at the end of the year and advise the Board as to your recommendations in the matter in view of the circumstances existing at that time."

Approved.

Letter to "The First National Bank of Boston", Boston, Massachusetts, reading as follows:

"This refers to the application of your bank for permission of the Federal Reserve Board, under the provisions of section 25 of the Federal Reserve Act, to acquire and hold stock in the 'First of Boston International Corporation', Boston, Massachusetts, a corporation engaged in international or foreign banking. Reference is also made to the agreement dated May 11, 1935 executed by the First of Boston International Corporation in accordance with the requirements of section 25 of the Federal Reserve Act, by which such corporation agrees to restrict its operations and conduct its business in the manner set forth therein.

"After consideration of such application and agreement, the Federal Reserve Board hereby approves such application and grants to 'The First National Bank of Boston', subject to all of the provisions of section 25 of the Federal Reserve Act, permission to invest in the stock of the First of Boston International Corporation to the extent of \$250,000, representing 2,500 shares of the capital stock of such corporation having a par value of \$100 per share."

Approved, together with a letter to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, advising of approval by the Board of the application of The First National Bank of Boston and transmitting a copy of the letter to the bank set forth above.

Letter to the "First National Bank in Sidney", Sidney, New York, reading as follows:

"This refers to the resolution adopted on December 11, 1934, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise trust powers

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"which have been granted to it by the Federal Reserve Board.

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

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

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Fair Haven', Fair Haven, Vermont, from \$100,000 to \$50,000, pursuant to a plan which provides that the released capital shall be returned pro-rata to the shareholders, all as set forth in your memorandum of May 13, 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 First National Bank of Spangler', Spangler, Pennsylvania,

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"from \$50,000 to \$10,000, pursuant to a plan which provides for the retirement of the present outstanding preferred stock aggregating \$25,000, the issuance and sale of \$85,000 par value of new preferred stock to local interests, and the use of the released common capital in eliminating a corresponding amount of securities depreciation, all as set forth in your letter of May 11, 1935.

"In this connection, it is assumed that, as suggested by the Federal Reserve Agent at Philadelphia, the owners of subordinated deposits which are to be applied to the purchase of preferred stock will be fully advised of the details of the capital adjustment, particularly as it affects those who are not liable on the directors' guarantee which is to be released."

Approved.

Telegram dated May 20, 1935, approved by three members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Re your letter May 14, 1935 regarding proposed reduction by 'Clarks Fork Valley Bank of Fromberg, Montana', of its capital debentures from \$7,500 to \$5,000. As you state, bank is not subject to a condition of membership requiring Board's approval to a reduction of capital. In view of the strong capital and good liquid position of the bank as shown by report of examination as of February 1, 1935, proposed reduction does not appear to be inconsistent with Board's position that member banks maintain adequate capital. Accordingly Board agrees with your conclusion that proposed reduction, which meets with the approval of State Superintendent of Banks, should be permitted."

Approved.

Telegram to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, authorizing him, subject to the conditions prescribed in the telegram, to issue a limited voting permit to "The Meadow River Lumber Company", Rainelle, West Virginia, entitling such organization to vote the stock which it owns or controls in "The Bank of Rainelle", Rainelle, West Virginia, for the purpose of electing



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directors of such bank at the annual meeting of shareholders or at any adjournments thereof, at any time prior to September 1, 1935, and to act upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank. The telegram also advised that the time specified in condition numbered 18 of the conditions of membership of The Bank of Rainelle within which the lumber company shall obtain a general voting permit is extended to September 1, 1935, and that consideration is being given by the Board to the matter of authorizing the issuance of a general voting permit to the applicant.

Approved.

Telegram dated May 20, 1935, approved by four members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Refer your letter May 1, 1935. Board extends to December 31, 1935, time within which 'Mercantile National Bank at Dallas' and 'Equitable Securities Company', Dallas, holding company affiliates of 'Farmers & Merchants State Bank', Carrollton, Texas; 'The First State Bank', Celina, Texas; 'Farmers & Merchants State Bank', Ladonia, Texas and 'The Farmers & Merchants State Bank of Wylie', Wylie, Texas, may obtain general voting permits in accordance with condition of membership applicable to each such State member bank. Please advise those at interest accordingly."

Approved.

Letter to Mr. Fred R. Wooley, Chairman, Membership Committee, Salt Lake Stock Exchange, Salt Lake City, Utah, reading as follows:

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"This is in reply to your letter of May 2, 1935, addressed to the Securities and Exchange Commission, relating to a member of a national securities exchange who may wish to extend credit to a customer on an unregistered non-exempted security for the purpose of purchasing additional securities.

"A copy of the Securities and Exchange Act of 1934 is inclosed herewith and reference is made to Section 7(c)(2). The Federal Reserve Board has generally interpreted this to prohibit a member of such an exchange from extending credit to a customer on an unregistered, non-exempted security for the purpose of purchasing securities. The Board's interpretation in the case which you mention would be that the extension of credit is not permitted by Section 7(c)(2)."

Approved.

Letter dated May 20, 1935, approved by five members of the Board, to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to Mr. Newton's letter of November 13, 1934, in which he advised that the First National Bank of Jefferson Parish at Gretna, Gretna, Louisiana, contemplates the retirement of preferred stock at six month intervals out of earnings and intends, as preferred stock is so retired, to set up in a 'special reserve fund' an amount equal to the par value of the shares retired. It appears that, when the reserve fund is of a sufficient amount to justify it, the bank will declare a stock dividend to its common stockholders out of such reserve fund. In these circumstances, he requests advice as to whether the Federal Reserve Bank of Atlanta may comply with the wish of the bank to withhold an application for an adjustment in its Federal Reserve bank stock holdings until such time as the entire recapitalization plan has been completed.

"As you know, under the provisions of Section 5 of the Federal Reserve Act, subscriptions for Federal Reserve bank stock are based on the capital and surplus of the member bank. It is understood that the bank contemplates that the amounts set up in the 'special reserve fund' referred to will be a part of the permanent capital of the bank, and will not be resorted to for any other purpose than the issuance of common stock dividends, and that such reserve fund is intended merely to

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"facilitate adjustments of the bank's capital stock. It is assumed that such purposes will be evidenced by a resolution or resolutions of the board of directors of the bank authorizing the establishment of the 'special reserve fund' and the setting aside of the appropriate amounts in such fund.

"In such circumstances, the Board is of the opinion that a 'special reserve fund' of the kind described may be regarded as 'surplus' for the purpose of determining the amount of Federal Reserve bank stock which the bank is required or entitled to hold. Accordingly, since it is contemplated that the retirement by the First National Bank of Jefferson Parish at Gretna of its preferred stock will be accompanied by a corresponding increase in the amount of its surplus, including the 'special reserve fund', the aggregate amount of the bank's capital and surplus will not be altered by such transaction; and it will not be necessary, therefore, as a result of such transaction for the bank to file an application for a reduction in the amount of Federal Reserve bank stock held by it. Since, however, the bank's December 31, 1934 condition report shows an aggregate capital and surplus, including the reserve for common stock dividends, of \$193,500 on the basis of which it is required to hold 117 shares of Federal Reserve bank stock, and as it now holds only 114 shares of such stock, it should be requested to file an application for 3 additional shares of Federal Reserve bank stock, unless there has been some further change in the bank's capital and surplus. In this connection, it should be noted that if a bank holds an amount of Federal reserve bank stock in excess of an amount represented by 6 per cent of its capital and surplus (because of the exercise of its option, on previous occasions, not to surrender Federal reserve bank stock incident to reductions in surplus), such excess holdings would not be affected by the views of the Board stated herein with regard to a reduction of the bank's preferred stock and a simultaneous increase in its surplus represented by a reserve for dividends payable in common stock, and the right of the bank to subscribe at any time for additional shares in view of its holding of such excess shares will be governed by the previous rulings of the Board with regard thereto."

Approved.

Letter dated May 20, 1935, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

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"There is inclosed herewith for your information and guidance, in the event that cases involving similar circumstances come to your attention, a copy of a letter addressed by the Federal Reserve Board to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta with regard to the necessity for a surrender of Federal Reserve bank stock by a member bank upon retirement of preferred stock and the establishment of a reserve fund for dividends payable in common stock.

"As you know, numerous member banks have issued preferred stock, capital debentures, and capital notes which may be retired out of earnings, and it is understood that upon such retirement reserves are frequently established for the payment of common stock dividends in substantially the same manner as indicated in the attached letter. In any case where a reserve fund is thus set aside for dividends payable in common stock, such reserve fund may be treated as surplus for the purpose of determining the amount of Federal Reserve bank stock which should be held by the member bank involved.

"Applications for adjustments in Federal Reserve bank stockholdings, Forms 56 and 60, should indicate clearly the amount of 'Reserve for dividends payable in common stock', and, accordingly, pending the revision of the forms it is suggested that this be accomplished on Form 56 by writing in the item 'Reserves for dividends payable in common stock' immediately after the item 'Surplus', and on Form 60 by appending a note on the reverse side, immediately above the directors' signatures, reading 'The surplus on the above given date included a reserve for dividends payable in common stock of \$\_\_\_\_\_.' The capital structure of the bank, including the existence or non-existence of a reserve for dividends payable in common stock, should be checked against condition reports or other available data, in accordance with the usual practice. The Comptroller's office now notifies Federal Reserve agents of all increases and decreases in capital stock of national banks, including all retirements of preferred stock and all issues of common stock whether through the declaration of a stock dividend or otherwise. It is understood, however, that at present it will not be practicable for the Comptroller's office to furnish similar advice with respect to transfers made to the account 'Reserves for dividends payable in common stock' incident to retirements of preferred stock."

Approved.

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Letter dated May 20, 1935, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"This refers to Mr. Young's letter of November 10, 1934, with inclosures, regarding the question whether it is necessary, in the circumstances described in his letter, for the National Bank of Grand Rapids, Grand Rapids, Michigan, to file an application for a reduction in the amount of Federal Reserve bank stock held by that bank.

"It appears that the National Bank of Grand Rapids recently retired, out of earnings, 500 shares of preferred stock having a par value of \$10,000 and at the same time established a 'reserve for dividends payable in common stock' in an equivalent amount. Such reserve was established in order to avoid the necessity of immediately declaring a common stock dividend, which would have resulted in the issuance of fractional shares by reason of diversified stockholdings. It is understood that, under its articles of association, the National Bank of Grand Rapids is authorized to retire preferred stock out of earnings and to increase common stock by stock dividends to the extent that earnings have been used to retire preferred stock. In this connection, it is noted that the Board of Directors of the bank authorized and directed the retirement of \$10,000 par value of preferred stock and the carrying of an equivalent amount under reserve for dividends payable in common stock. In view of this fact, it appears that the bank contemplates that such reserve will not be resorted to for any purpose other than the declaration of common stock dividends and that such reserve is treated by the bank as a part of its permanent capital.

"As you know, under the provisions of the Federal Reserve Act, subscriptions for Federal Reserve bank stock are based upon the capital and surplus of the member bank. In the circumstances of the present case, it is the opinion of the Board that the reserve for dividends payable in common stock established by the National Bank of Grand Rapids as above described may be regarded as 'surplus' for the purpose of determining the amount of Federal Reserve bank stock which the bank is required or entitled to hold. Accordingly, since the retirement by the bank of its preferred stock in the amount of \$10,000 has been accompanied by a corresponding increase in the amount of its surplus, the aggregate amount of the bank's capital and surplus has not been altered by such transaction; and it will not be necessary, therefore, as

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"the result of such transaction, for the bank to file an application for a reduction in the amount of Federal Reserve bank stock held by it. In this connection, it should be noted that if a bank holds an amount of Federal Reserve bank stock in excess of an amount represented by 6 per cent of its capital and surplus (because of the exercise of its option, on previous occasions, not to surrender Federal Reserve bank stock incident to reductions in surplus), such excess holdings would not be affected by the views of the Board stated herein with regard to a reduction of the bank's preferred stock and a simultaneous increase in its surplus represented by a reserve for dividends payable in common stock, and the right of the bank to subscribe at any time for additional shares in view of its holding of such excess shares will be governed by the previous rulings of the Board with regard thereto."

Approved.

Letter dated May 20, 1935, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of your letter of February 26, 1935, relative to reductions in common capital stock of national banks which have been approved by the Board subject to a requirement that the capital of the bank should be maintained at its authorized amount, or at a fixed amount, or at a satisfactory ratio to its total deposit liabilities, through the issuance of common stock dividends upon the retirement of preferred stock.

"You state that in many cases strict compliance with the requirements that common stock dividends be issued upon retirement of preferred stock would necessitate the issuance of common stock in cumbersome and unmanageable fractional shares. In order to meet the situation it appears that the accounting procedure prescribed by your office provides, when preferred stock is retired, for the transfer of 'reserves on account of retirement of preferred stock' to 'reserves for dividends payable in common stock', which latter account is not subject to application by the Board of Directors of the bank to any use other than to support an issue of common stock as a common stock dividend. In this connection, it is understood that the setting up of a reserve fund for dividends payable in common stock is accomplished by a resolution of the Board of Directors of the bank

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"involved and that it is contemplated by the bank that this fund will be a part of the permanent capital of the bank.

"You ask if the setting up of reserves for dividends payable in common stock upon the retirement of preferred stock may be considered as substantial compliance with the conditions imposed by the Board that common stock shall be issued upon the retirement of preferred stock in order to maintain the capital of a bank at its authorized amount, or at a fixed amount, or at a satisfactory ratio of its capital to its total deposit liabilities.

"You are advised that the Board considers the setting up of reserves for dividends payable in common stock in the manner herein described as substantial compliance with requirements it has made, in connection with reductions in the capital of national banks, that upon the retirement of preferred stock the banks involved must issue common stock.

"As you know, a bank which is a member of the Federal Reserve System is required by the provisions of the Federal Reserve Act to subscribe for stock of a Federal reserve bank on the basis of the capital and surplus of the member bank and, for your information, it may be stated that the Board has ruled that reserves for dividends payable in common stock which have been set aside substantially in the manner herein described may be considered as 'surplus' of a member bank for the purpose of determining the amount of its subscription for Federal reserve bank stock. A copy of a memorandum regarding this question, prepared in the office of the Board's General Counsel, is enclosed herewith for your information. In this connection, the Board would be interested in receiving advice as to any rulings made by your office with regard to whether such reserves for dividends payable in common stock may be considered as 'surplus' within the meaning of the provisions of section 5200 of the Revised Statutes of the United States or within the meaning of any other laws applicable to national banks and having reference to the surplus of such institutions."

Approved.

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

"This refers to your letter of March 22, 1935, regarding the question whether, in view of the large amount of the bank's assets classified as statutory bad debts in the report of ex-

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"amination as of December 31, 1934, United States Trust Company, Boston, Massachusetts, may pay dividends on its common and preferred stock.

"As you know, section 9 of the Federal Reserve Act contains the following provision:

"All banks admitted to membership under authority of this section shall be required \* \* \* to conform to those provisions of law imposed on national banks \* \* \* which relates to the payment of unearned dividends.'

"The pertinent provisions of law with reference to the payment of dividends by national banks are as follows:

"Sec. 5204, Revised Statutes of the United States:

\* \* \* no dividend shall ever be made by any association, while it continues in its banking operations, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any association, on which interest is past due and unpaid for a period of six months, unless the same are well secured and in the process of collection, shall be considered bad debts within the meaning of this section.'

"Sec. 302 of Act Approved March 9, 1933, as amended:

'Notwithstanding any other provision of law, whether relating to restriction upon the payment of dividends on capital stock or otherwise, the holders of such preferred stock shall be entitled to receive such cumulative dividends at a rate not exceeding 6 per centum per annum \* \* \* as may be provided in the articles of association with the approval of the Comptroller of the Currency.'

"These statutory provisions clearly prohibit a State member bank from paying dividends on its common stock when its statutory bad debts exceed its net profits then on hand. The Board has no authority to authorize the payment of such dividends contrary to the statutory restrictions. However, the Board is of the opinion that under the above quoted provisions a State member bank may pay dividends on its preferred stock although its statutory bad debts exceed its net profits. It is, of course, subject to any restrictions which may be contained in its articles of incorporation or provided by the applicable State laws."

Approved.

Letter to Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury, reading as follows:



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"Your letter of May 15 in regard to arrangements for space for temporary occupancy by Mr. Frank Walker has been brought to the attention of Dr. Miller as Chairman of the Board's Building Committee and has received the consideration of the Board.

"There was also brought to the Board's attention the information received over the telephone to the effect that it is understood that, as soon as a certain other building is rehabilitated, a contract for which requiring the completion of the work within ninety days has been let, the space therein is to be made available to Mr. Walker, so that he may vacate the space in the Munitions Building which is to be occupied by the Federal Trade Commission. In addition, the Board was advised of your view that the period of ninety days is intended to run from the date of Mr. Walker's entrance into the occupancy of the space in the Munitions Building, which it is understood has already taken place or will be accomplished before June 1, 1935.

"With this understanding of the facts and in view of the information to the effect that the President has approved the allotment to Mr. Walker of the space in the Munitions Building for such period of ninety days, subject to the approval of the Federal Reserve Board, the Board has requested me to advise you that it consents to the continuation of the occupancy by the Federal Trade Commission of the building on the Board's property for such additional time as may be necessary up to September 1, 1935.

"In this connection, the Board on Saturday, May 18, selected Mr. Paul P. Cret of Philadelphia as its architect. He arrived in Washington on Monday and his plans were submitted to and received the general approval of the Commission of Fine Arts. Therefore, he has entered upon the preparation of the final plans and in this connection he requested that the Board arrange as soon as possible to make the test borings to determine foundation conditions upon the site. In the circumstances, the Board expects to have such tests made notwithstanding the fact that the Federal Trade Commission may be occupying the building on the site, but it is understood to be likely that the tests can be made in portions of the site which are not directly underneath the structure of the building.

"The Board expects also to let a contract with a view to beginning the destruction of the building on the site not later than September 1, 1935, so as to clear the way for the construction of the foundations for the new building.

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"The Board appreciates the cooperation which has been given by the Treasury heretofore in endeavoring to bring about an understanding as to the removal of the Federal Trade Commission from the building on the Board's site and has requested me as hereinbefore set forth to advise you fully of the conditions under which it has consented to the continued occupancy of the building by the Federal Trade Commission for a period expiring not later than September 1, 1935, so that you may have a full understanding of the Board's plans and the reasons why it desires that every obstacle which might delay the construction of the building be avoided."

Approved.

Letter to Governor Harrison of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of May 14 with regard to the absorption by your bank of shipping charges on coin and currency forwarded to nonmember banks.

"It is noted from your letter that your bank has been absorbing these costs for approximately 16 years, and that your officers and directors, after giving careful consideration to the question of the possible discontinuance of absorbing the cost of shipping coin and currency to nonmember banks, are of the opinion that, for reasons stated in your letter, it would not be advisable to discontinue the practice at this time.

"The Board has carefully reviewed the statements contained in your letter and agrees with you that it would not be advisable to reopen this question at this time, particularly as the requirement that nonmember banks which are members of the Federal Deposit Insurance Corporation must within a specified time become members of the Federal Reserve System is now under consideration by Congress. The Board is of the opinion, however, that the services of the Federal Reserve banks should, so far as practicable, be confined to member banks and does not feel that the Federal Reserve banks are justified in rendering valuable services to nonmember banks and absorbing the costs thereof.

"In your letter you state that discontinuance of the practice of absorbing shipping charges on currency and coin might result in many of the nonmember banks returning to their former practice of making exchange charges on their own checks. In this connection it may be stated that all nonmember banks in

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"the Boston and Philadelphia districts, and all but one in the Cleveland district, are on the par list, and that the Federal Reserve banks of those districts do not absorb the cost of shipping currency to nonmember banks.

"The Board has received considerable information recently to the effect that a substantial number of small nonmember banks, particularly those in agricultural sections of the country, could not make sufficient earnings to warrant them continuing operations were it not for the income they receive from exchange charges. It was with the idea of finding some means whereby such banks could continue in existence that Governor Eccles, in his testimony before the Banking and Currency Committee, made the suggestion that the requirement that banks which continue to be insured under Section 12B of the Federal Reserve Act must become members of the Federal Reserve System by July 1, 1937, be modified so as to exempt from such requirement banks having deposit liabilities of less than \$500,000.

"After the Banking Act of 1935 is disposed of by the present session of Congress, it is suggested that your directors reconsider the question as to whether your bank should continue to absorb shipping charges on coin and currency to nonmember banks, and that you advise the Board of the conclusions reached in the light of the circumstances then existing."

Approved.

Letter to Honorable Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, reading as follows:

"This refers to your letter of May 9, 1935, inclosing a letter from Mr. Bion H. Barnett, Chairman of the Board of the Barnett National Bank, Jacksonville, Florida, with further reference to the subject matter of his letter of April 15, 1935, relating to the provisions of 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'.

"Mr. Barnett refers to the Board's letter of April 27, 1935 on this subject, a copy of which you transmitted to him, and inquires specifically 'if the payment of out-of-pocket costs are not interest, what are they?' Unless such costs may properly be regarded as interest, they are not prohibited by

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"the existing provisions of section 19 of the Federal Reserve Act relating to deposits payable on demand and it would seem unnecessary for the purposes of the statute to undertake to determine in what category such costs may fall. As indicated in the Board's previous letter on this subject, the statute does not prohibit all payments in connection with deposits payable on demand but merely prohibits payments of interest and the Board has not felt that the provisions of existing law necessarily prohibit the absorption by member banks of every out-of-pocket expense in connection with deposits payable on demand.

"It is not feasible at this time to advise what changes may be made by the Board in rulings heretofore issued by it or as to whether the absorption of all out-of-pocket expenses may lawfully be forbidden if the proposed amendments are adopted, as this is a matter which will require thorough study and which involves a number of factors in addition to the absorption of exchange and collection charges with which Mr. Barnett's letter appears primarily concerned. You may be assured, however, that, if the provisions of the proposed Banking Act of 1935 on this subject are enacted into law, the Board will give the most careful consideration to the matter with a view to carrying out as nearly as possible the intention of the statute and, at the same time, making the requirements on the subject as practicable as circumstances will permit both for the member banks and their depositors.

"Mr. Barnett's letter is returned herewith."

Approved.

Letter dated May 18, 1935, approved by five members of the Board, to Mr. R. D. W. Connor, Archivist, The National Archives, reading as follows:

"Reference is made to your letter of April 12, 1935, addressed to Governor Eccles, requesting information with regard to the disposal of useless papers by the Federal Reserve Board. The questions contained in your letter are answered below in the order listed.

"(1) The Federal Reserve Board has not destroyed any useless papers since 1932. There is on hand at the present time, however, a quantity of material which will be listed for destruction in due course, consisting of correspondence regarding sub-

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"scriptions to and orders for publications of the Board, various routine reports sent by the Federal reserve banks to the Federal Reserve Board, telegrams covering note clearings, transit clearings and gold settlement fund transactions, and forms and telegrams with regard to receipts, payments, and retirement of currency. The Board's financial and statistical library retains all books received by it and only disposes of uncurrent newspapers and occasional single numbers of periodicals.

"(2) In 1925 14,300 pounds of material were sold. Since that time, according to the records of this office, all of the material disposed of by the Board has been destroyed.

"(3) The material referred to in the paragraph numbered (1) above as being material which will be listed for destruction weighs approximately 7,850 pounds. Since January 1, 1925, five lots of material, weighing approximately 29,600 pounds, have been disposed of as stated in paragraph (2) above.

"(4) This material was disposed of in 1925, 1927, 1928, 1930, and 1932.

"(5) The dispositions were under the following House reports made pursuant to the Act of February 16, 1889:

1925 - No. 1648, 68th Congress, 2d Session, March 3, 1925

1927 - No. 2304, 69th Congress, 2d Session, March 3, 1927

1928 - No. 1717, 70th Congress, 1st Session, May 17, 1928

1930 - No. 689, 71st Congress, 2d Session, February 17, 1930

1932 - No. 270, 72d Congress, 1st Session, January 25, 1932

"(6) The Board does not feel that it is in a position to express an opinion as to the best method of extending, clarifying, and unifying existing legislation pertaining to the disposal of useless papers. It is believed, however, that, in the consideration of amendments to existing law, attention should be given to the advisability of authorizing the heads of departments, agencies, and independent establishments, in their discretion after consultation with the Archivist, to destroy routine schedules, reports, and correspondence which have no further value as records of the department, agency, or establishment or from a historical standpoint."

Approved.

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

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"Receipt is acknowledged of your letters of May 7, 1935 (eighteen in number), submitting information, together with your recommendations, with regard to certain outstanding Clayton Act permits.

"The Board appreciates the thoroughness with which you have gone into each of the cases involved. However, in view of the procedure outlined in its wire of March 5, 1935 (trans 2225), and its letter to you of March 26, 1935, the Board will not take any action with respect to the permits referred to in your letters pending the outcome of the proposed legislation now before the Congress for the purpose of clarifying and otherwise amending the provisions of the Clayton Act relating to interlocking directorates.

"While the Board stated in its letter to you of March 26 that the deferment for the time being of the submission of reports based on the annual review of Clayton Act permits should not apply in the case of permits which you have been requested to review on or before a specified date, or which have been made the subject of a request for a special review, it was contemplated that requests that you obtain certain information at the time of your next annual review of Clayton Act permits should not be construed as requests for a special review. In other words, it was expected that you would defer for the time being the submission of all reports based on the annual review as distinguished from requests for a report at some other time or for a special purpose."

Approved.

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

"Reference is made to Assistant Federal Reserve Agent Young's letters of May 4 and 13, 1935, with inclosures, submitting additional information in support of the application of Mr. J. L. Collins, Knoxville, Iowa, for permission under the provisions of the Clayton Act to serve at the same time as director and officer of Iowa State Savings Bank and The Community National Bank & Trust Company of Knoxville, both of Knoxville, Iowa, and as director of The Peoples National Bank of Albia, Albia, Iowa, which was not approved by the Board as indicated in its letter of February 14, 1935, to you. The Board has reconsidered the application of Mr. Collins but still feels that the issuance of the permit applied for

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"would be incompatible with the public interest since the two Knoxville banks appear to be engaged in the same class or classes of business, except as to trust business, and are so located as to be in a position to compete substantially; and the information submitted with Mr. Young's letters of May 4 and 13, 1935, does not appear sufficient to warrant the issuance of the permit. In this connection, reference is made to the Board's letter of January 9, 1935, X-9082.

"As stated in the Board's letter of February 14, 1935, Mr. Collins, if he so desires, may amend his application to exclude therefrom one of the two Knoxville banks and upon receipt of such amendment, accompanied by appropriate evidence of the severance of his connection with the bank which is to be excluded therefrom, the Board will give consideration to the amended application.

"Please inform Mr. Collins of the Board's action on his application and advise the Board promptly as to whether he desires to submit an amendment to his application and, if not, as to what steps he proposes to take in order to comply with the provisions of the Clayton Act."

Approved.

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

"Reference is made to Assistant Federal Reserve Agent Young's letter of May 9, 1935, submitting the periodical review which your office has made of the Clayton Act permit granted September 22, 1934, to Mr. I. Floyd Garrott, Battle Ground, Indiana, to serve at the same time as director of The First-Merchants National Bank of Lafayette, Lafayette, as director and officer of Battle Ground State Bank, Battle Ground, and as director and officer of Fowler State Bank, Fowler, all of Indiana.

"The Board has noted the information submitted with your current review of this case and in view of the policy set forth in its letter of January 9, 1935 (X-9082), is willing to allow the permit heretofore granted to Mr. Garrott to continue in effect."

Approved.

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

"The Board has given consideration to the application of Mr. Wilfred W. Fry for permission under the provisions of the Clayton Act to serve at the same time as director of The First National Bank of Philadelphia and Fidelity-Philadelphia Trust Company both of Philadelphia, Pennsylvania, and, upon the basis of the information before it, feels that the issuance of the permit applied for would be incompatible with the public interest. Please advise the applicant of the Board's position in the matter unless there are pertinent facts which were not submitted with the application and which you feel should be given consideration.

"Please inform Mr. Fry that the Board's action upon his application was based upon the fact that the banks appear to be engaged in the same class or classes of business and are so located as to be in a position to compete substantially. It appears that it is the policy of the Congress, as declared in the Clayton Act, to terminate interlocking relationships between banking institutions of certain classes which are in substantial competition, apparently because the Congress felt that such relationships might tend to result in a substantial lessening of competition and a restriction of credit. Therefore, the Board does not feel that it may grant this application since the facts which have been brought to its attention do not appear to warrant the issuance of the permit. In this connection, reference is made to the Board's letter of January 9, 1935 (X-9082).

"In communicating with the applicant, please advise him that, in accordance with Section V(g) of Regulation L, consideration will be given to any additional facts or arguments not appearing in his application and accompanying forms which he feels should be brought to the Board's attention. In this connection, please advise the Board promptly as to whether Mr. Fry desires to submit any additional data and, if not, as to what steps he proposes to take in order to comply with the provisions of the Clayton Act."

Approved.

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



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	<u>Shares</u>	
<u>Application for ADDITIONAL Stock:</u>		
<u>District No. 10.</u>		
The First National Bank of Denver, Denver, Colorado.	150	150
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 10.</u>		
The First National Bank of Fruita, Fruita, Colorado.	18	18
<u>District No. 11.</u>		
The First National Bank of Durant, Durant, Oklahoma.	66	66
	<hr/>	<hr/>
	Total	84

Approved.

Thereupon the meeting adjourned.

Cheser Hovier  
Secretary.

Approved:

M. Steeles  
Governor.