

A meeting of the Federal Reserve Board was held in Washington on Tuesday, June 4, 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 minutes of the meetings of the Federal Reserve Board held on May 18, 21 and 22, 1935, were approved.

The Board then acted upon the following matters:

Letter dated May 29, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, advising that, at the meeting of the board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated May 29, 1935, from Mr. Morrill, recommending the temporary appointment of Miss Lucy E. Fulwiler as a stenographer in the Secretary's office for a period of three months, with salary at the rate of \$125 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved.

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

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"Your letter of May 15, 1935, advising that you have appointed Mrs. Theresa Mennel as a money counter in the Federal Reserve Issue and Redemption Division with salary at the rate of \$1,500 per annum to fill the vacancy caused by the death of Mrs. M. C. Mulvihill, was received by the Board on May 28, 1935.

"The Federal Reserve Board approves the salary at the rate of \$1,500 per annum for Mrs. Mennel, effective June 1, 1935. The Board is advised that Mrs. Mennel is a contributing member of the Civil Service Retirement Fund and as such will not be eligible for membership in the Retirement System of the Federal Reserve Banks. Accordingly, the Board will not require that she pass the physical examination usually required of new employees in connection with membership in the Retirement System of the Federal Reserve Banks."

Approved.

Letter dated May 31, 1935, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of April 19, 1935, transmitting an unfavorable recommendation of the Reserve Bank Committee in connection with the application of 'The Farmers State Bank of Alto', Alto, Michigan, for membership in the Federal Reserve System. Your letter of April 23, 1935, addressed to Mr. Hamlin with regard to the question of general policy involved has also been brought to the attention of the Federal Reserve Board.

"It appears to the Board that the Committee's adverse recommendation is based largely if not entirely upon the following statement contained in the statement of general principles applicable to the consideration of applications for membership in the Federal Reserve System which was submitted to the Federal Reserve Agents' Conference held at Washington in August 1933:

"'Careful consideration should be given in each case to the needs of the community for the banking facilities to be provided by subject bank, and to the probability of the successful operation of the bank in view of all circumstances involved in the particular case.'

"The minutes of that Conference show that such statement of principles was acceptable to the Conference, with certain minor changes which did not refer to the paragraph quoted above, and the statement of principles is set out in the minutes of the

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"Conference. Subsequently, the statement of principles was revised and amplified in the light of the discussions during the Federal Reserve Agents' Conference and transmitted to the Agents in the Board's letter of September 11, 1933 (X-7581). In this revision, there was added to the statement quoted above the following sentence:

"In this connection particular consideration should be given to the circumstances involved in any reorganization of the applicant bank which has occurred within a short time prior to its application for admission to the system, and attention is called to the Board's letter of August 21, 1933 (X-7556), with regard to applications involving such circumstances."

"You will recall that at the time the various supervisory authorities were devoting much time and effort in connection with the reorganization of banks which had not been licensed at the close of the banking holiday. There were, moreover, considerable doubts as to the extent to which banks reorganized with waiver of deposits would be able to retain or gain the confidence of depositors. The Board, therefore, felt that particular consideration should be given to these cases, and the statement just above quoted was included in the statement of general principles as contained in the Board's letter of September 11, 1933.

"While you have not recommended what modifications should be made in the general principles quoted above, you have indicated that you feel that the Federal Reserve Agents should not be requested to give consideration to the probability of the successful operation of State banks applying for admission to membership in the Federal Reserve System in view of the fact that there may be numerous applications from banks the situation of which is comparable to The Farmers State Bank of Alto.

"The Board feels that both it and the Federal Reserve Agents have a responsibility in acting on applications of State banks for membership in the Federal Reserve System to consider all of the substantial factors having a bearing on the financial condition of the bank at the time of its admission to membership and the maintenance of a sound financial condition. The Board, therefore, does not feel that it may properly instruct its Agents that they need not give consideration to the probability of the successful operation of a bank applying for admission to membership. However, it appears that there is some misapprehension as to the meaning of the Board's present instructions on this point. It is contemplated that this is a feature which the Federal Reserve Agents may not properly overlook in giving consideration to applications for membership, but it is not expected that the recommendation of approval of a bank's application carries with it a

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"warranty that the bank will be successful. On the other hand, where the facts involved clearly indicate that the operations of the bank cannot be successful and will result in its insolvency and loss to its depositors, the Board would not be justified in giving its approval to the admission of the bank to membership in the Federal Reserve System. It is the Board's understanding of its instructions that the Federal Reserve Agents, in formulating their recommendations on applications for membership, will have a reasonable latitude in reaching a sound judgment on this as well as other questions involved in applications for membership.

"As pointed out in the statement of general principles covering the admission of State banks to membership, no rigid formula can be prescribed for the admission of State banks to the Federal Reserve System, but consideration should be given to all of the facts involved in each particular case. In this connection, it may be helpful to you to describe briefly the circumstances involved in the following case which has been acted upon by the Board and which appears to be comparable to the case of The Farmers State Bank of Alto.

"The bank referred to, which is situated in a strictly farming community, was admitted to membership in the System in November 1933, and at the time of an examination in connection with its application for membership, had a capital and surplus aggregating \$29,000 as compared with total deposits of \$77,000. Its deposits at the end of each of the five years from 1930 to 1934 have fluctuated between a high point of \$122,000 on December 31, 1930, and a low point of \$55,000 on December 31, 1933. In 1927, the bank was reorganized under a plan which provided for a 50 percent waiver of deposits. The Agent advised that the bank was well managed. For the years 1928, 1929, and 1930 the bank paid substantial dividends out of net earnings. The Federal Reserve Agent at first submitted this case to the Board on the basis of its being a test case for his guidance in acting on applications of other small banks similarly situated. However, after he was advised that it would be preferable to submit the application on the merits of the particular case, he reviewed the facts involved, including the probability of the successful operation of the bank, and recommended that its application be approved.

"During the last two years several other applications for membership by banks with deposits of \$100,000 or less have been approved.

"While it appears from the last report of examination of The Farmers State Bank of Alto that at that time it had deposits

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"of approximately only \$95,000, it has been observed from the information submitted in this case that its deposits on the following dates indicated have been as follows:

December 31, 1929	\$290,000
June 30, 1930	261,000
December 31, 1930	242,000
June 30, 1931	223,000
December 31, 1931	203,000
June 30, 1932	191,000
December 31, 1932	185,000
February 14, 1933	181,000

(date of closing)

"It has also been observed that The Farmers State Bank of Alto was organized in 1904 and that the examiner who made the examination in connection with its application for membership concluded his remarks with the following statement:

"This appears to be a moderately rich agricultural community and the town appears to have a reasonably extensive territory which should sustain it as a small trading center which will continue to require banking service. The town and consequently the bank apparently will not prosper without a reasonable restoration of farm prosperity. That the bank once prospered is attested by the statement that it paid regular cash dividends of from 5% to 20% after its first five years of operations and a 120% cash dividend in 1918. The last dividend is said to have been paid in 1923.

The examiner's report also shows that there are no assets classified as doubtful or loss, that the bank has an unimpaired capital equal to more than 25% of its deposit liabilities, and that it has a very high ratio of liquidity.

"On the basis of the information which you have submitted, the Board feels that you would be justified in making a favorable recommendation and is willing to approve the application upon receipt of such recommendation."

Approved.

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

"Reference is made to your letter of May 23, 1935, transmitting the request of 'The Summit Trust Company', Summit, New Jersey, for an extension of time to July 1, 1936, within which it may comply with the provisions of membership condition

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"numbered 18 which reads as follows:

"Not later than July 1, 1934, such bank shall dispose of any stock it holds in the Summit Title and Mortgage Guaranty Company and shall not thereafter hold any stock in such company, directly or indirectly, through any device whatever."

"The Summit Trust Company has also requested that it be permitted to continue to act, until July 1, 1936, as trustee in connection with bonds or other obligations issued by the Summit Title and Mortgage Guaranty Company even though the exercise of such function is prohibited under the provisions of membership condition numbered 19 which was accepted by the bank at the time of its admission to the System. The Board, on June 28, 1934, extended to July 1, 1935, the time within which The Summit Trust Company might comply with the provisions of membership condition numbered 18 and also within which the bank might be permitted to continue to act as trustee in connection with bonds or other obligations issued by the Summit Title and Mortgage Guaranty Company.

"In view of all the circumstances and your recommendation, the Board extends to July 1, 1936, the time within which The Summit Trust Company may comply with the provisions of membership condition numbered 18 and extends also to July 1, 1936, the time within which The Summit Trust Company may continue to act as trustee in connection with outstanding bonds or other obligations issued by the Summit Title and Mortgage Guaranty Company with the understanding, of course, that the bank will continue to act as trustee for the Summit Title and Mortgage Guaranty Company only in connection with obligations which had been issued by the title company prior to the time of the bank's admission to membership.

"It is requested that you advise the bank of the Board's action in the matter."

Approved.

Letter dated May 31, 1935, approved by five members of the Board, 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 20, 1935, regarding the contract entered into May 9, 1935, under the terms of which the 'First State Bank of King City, Missouri', agreed to loan the Citizens National Bank of King City \$40,000 to be used by the national bank in paying off its depositors in a program

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"of voluntary liquidation. It has been noted that some weeks previously the First State Bank discussed with you a plan under consideration for assuming the deposits of the Citizens National Bank and that at the time you called the attention of the bank to the necessity, under the provisions of general condition of membership numbered 1, of obtaining the permission of the Board before the bank committed itself to such a program, and that in order to avoid any possible delay the contract dated May 9 was devised by counsel for the First State Bank with a view to handling the transaction in such a way as to eliminate the necessity of securing the advance approval of the Federal Reserve Board. Counsel for the Reserve Bank, however, has stated that, in his opinion, the contract as drawn is of such character as to require consent by the Federal Reserve Board under the conditions of membership.

"It is understood that the First State Bank did not assume any liabilities of the Citizens National Bank under the contract but agreed to loan the national bank \$40,000 in order to enable it to deposit with a bank at St. Joseph, Missouri, sufficient cash to pay all of the liabilities of the Citizens National Bank to depositors and other creditors. It is understood, however, that the First State Bank anticipates that it will be able to acquire a substantial amount of the deposits of the national bank, and the contract provides for certain payments to the national bank in case the State bank is able to retain such deposits for a time.

"You state that you have no question as to the soundness of the loan made by the First State Bank to the national bank and that you consider the elimination of one of the two banks in King City a constructive move inasmuch as the banking business of the community for the past several years has not been more than sufficient to enable one bank to operate profitably, and you recommend that the Federal Reserve Board grant permission to the First State Bank to enter into the contract provided the transaction is considered by the Board to have been entered into in violation of condition of membership numbered 1.

"Without undertaking to pass upon the question of whether the transaction covered by the contract referred to is of such a nature as to require the approval of the Board under the provisions of general condition of membership numbered 1, in view of the circumstances and your recommendation, the Board will interpose no objection to the transaction provided it has been effected in accordance with the applicable provisions of State law. In this connection it has been noted that counsel for the Reserve Bank has raised the question of the validity of the agreement in view of the fact that, contrary to the provisions

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"of State law, the agreement provides for the compounding of interest more often than once a year. Counsel for the Reserve Bank has also called attention to the fact that the loan is in excess of the loan limits prescribed by State law and has suggested that the bank obtain the approval of the State Finance Commissioner for the loan. It will be appreciated if you will advise the Board if such approval and the supplemental contract to correct the defect in the original agreement relative to compound interest have been obtained as suggested in your letter of May 20, 1935, to the bank."

Approved.

Letter to "The Peoples National Bank of Patchogue", Patchogue, New York, reading as follows:

"This refers to the resolution adopted on February 15, 1935, by the board of directors of your bank signifying the bank's desire to surrender its right to act 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 New York, as authorized by the Federal Reserve Board.

"The Federal Reserve Board understands that your bank has never exercised its right to act in the trust capacities enumerated above, and that it has not assumed any duties in such capacities. 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

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"except with the permission of the Federal Reserve Board."

Approved.

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

"Reference is made to Assistant Federal Reserve Agent Dillistin's letter of May 22, 1935, recommending approval of a proposed reduction in the common capital stock of 'The Bank of Farmingdale', Farmingdale, New York, from \$75,000 to \$45,000, pursuant to a plan which provides for the sale of \$15,000 of new common capital stock at a premium of \$10,000; the retirement of the bank's present Class 'B' debentures in the amount of \$25,000; the transfer to surplus of the \$30,000 of released capital and the \$10,000 premium to be received from the sale of new common capital stock, and the elimination of all estimated losses and net depreciation in securities amounting to approximately \$26,700, as shown by the report of examination as of January 17, 1935.

"The Board has considered the information submitted, as well as the condition of the bank as reflected in the last report of examination, and, in accordance with Mr. Dillistin's recommendation, approves the reduction in common capital stock, with the understanding that none of the released capital or premium from the sale of new common stock will be returned to the stockholders, but will be used to eliminate approximately \$26,700 of unsatisfactory assets and to augment the bank's surplus, profits or reserves; that the transaction has the approval of the Banking Department of the State of New York, and that your counsel has considered the case and is satisfied as to the legality of the proceedings in connection therewith. It will be appreciated if you will forward copies of any amendments to the bank's charter which may be adopted in connection with the reduction in capital."

Approved.

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

"Receipt is acknowledged of Mr. Awalt's supplemental memorandum of May 22, 1935, in regard to the proposed reduction in capital of 'The First National Bank and Trust Company of Walden',

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"Walden, New York, from \$100,000 to \$50,000, which was approved by the Board on March 1, 1935, pursuant to a plan which provided for the use of the released capital in eliminating a corresponding amount of undesirable assets.

"It is understood that a report of examination of the bank, made as of April 8, 1935, shows the condition of the institution to be materially improved and therefore a modification of the requirement previously imposed in regard to charge-offs or eliminations to be made, is desired.

"In accordance with Mr. Awalt's recommendation, the Federal Reserve Board amends its previous approval of the proposed plan of capital reduction to provide for the use of the released capital in the following manner: \$20,000 to be credited to the bank's surplus account; \$25,000 to be used as a credit to eliminate a like amount of unsatisfactory assets, and \$5,000 to be placed in a reserve for contingencies account, all as set forth in Mr. Awalt's supplemental memorandum of May 22, 1935."

Approved.

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

"In accordance with Acting Comptroller of the Currency Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Harrison', Harrison, New York, from \$75,000 to \$7,500, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$170,000 of Class 'A' preferred stock to the Reconstruction Finance Corporation and \$30,000 of Class 'B' preferred stock to local interests, and that the released capital, together with the institution's surplus and undivided profits accounts, shall be used to eliminate estimated losses as shown in the report of examination as of March 18, 1935, all as set forth in Mr. Awalt's memorandum of May 22, 1935.

"In considering the plan under which the reduction in common capital is to be effected, it has been noted that the estimated losses exceed the aggregate of released capital, surplus and undivided profits by approximately \$7,500, resulting in a capital impairment of that amount, and that securities depreciation unprovided for in the amount of approximately \$38,600, if considered as a loss, will further impair the bank's capital. It is assumed, however, that this condition

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"is receiving the attention of your office."

Approved.

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

"In accordance with the recommendation of Acting Comptroller Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The Franklin National Bank of Jersey City', Jersey City, New Jersey, from \$400,000 to \$150,000, pursuant to a plan which provides that the released capital shall be used in eliminating \$250,000 of the least desirable assets in the bank, all as set forth in Mr. Awalt's memorandum of May 22, 1935."

Approved.

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

"In accordance with the recommendation of Acting Comptroller of the Currency Awalt, the Federal Reserve Board approves a reduction in the common capital stock of 'The Rutherford National Bank', Rutherford, New Jersey, from \$500,000 to \$200,000, pursuant to a plan which provides for the issuance and sale of \$300,000 of preferred stock to the Reconstruction Finance Corporation or others, and for the use of the released capital in eliminating a like amount of the least desirable assets in the bank, all as set forth in Mr. Awalt's memorandum of May 17, 1935."

Approved.

Letter dated May 31, 1935, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to Mr. Young's letter of May 18, 1935, and to the previous correspondence between your office and the Board in regard to the question of the capital sufficiency of 'The Grosvenor Savings Bank', Jonesville, Michigan, the

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"reorganization of the bank in March, 1934, having resulted in a decrease in the amount of its capital stock from \$50,000 to \$32,700, the amount collected by a 100 per cent stock assessment levied against the old capital stock. It is understood that the bank has recently sold \$2,300 of capital stock, making a total capital of \$35,000, that your office has requested a conference with the management regarding a further increase to \$50,000, but that it is doubtful whether the additional capital can be raised.

"As stated in the Board's letter to you of August 27, 1934, a reduction in capital stock by a member bank below the amount required for the organization of a national bank in the same place constitutes a violation of the requirements of the Federal Reserve Act for which the bank's membership in the System might be forfeited, but the question whether such action should be taken is one of policy for the Board's consideration in view of all the circumstances involved in the particular case.

"On April 16, 1935, you were advised that, in view of all the circumstances, no action on account of the reduction of capital of The Grosvenor Savings Bank would be taken by the Board for 90 days from the date of that letter. The report of examination of the bank as of April 3, 1935, which has since been received, showed no assets classified as doubtful or estimated losses, and net sound capital equal to 13 per cent of the deposits, which amounted to \$286,000.

"In a letter dated May 14, 1935, regarding a somewhat comparable situation in the case of the Bank of Lakeview, Lakeview, Michigan, the Board stated that no action would be taken at that time affecting the membership of the Bank of Lakeview by reason of the reduction of capital from \$40,000 to \$30,000, and Mr. Young asks whether, in view of that letter, you are to assume that no action will be taken affecting the membership of The Grosvenor Savings Bank if it is unable to raise the additional capital by July 15, 1935. Any future action affecting the membership of The Grosvenor Savings Bank will be dependent upon circumstances existing at the time. However, if no circumstances have arisen by July 15, 1935, to alter the situation and if such a course would be in accordance with your recommendation, the Board would not be disposed to take any action at that time affecting the membership of The Grosvenor Savings Bank by reason of the reduction of the capital stock in the reorganization. It will be expected, however, that the bank will maintain at all times a capital structure which is adequate in relation to its liabilities."

Approved.

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Telegram dated May 31, 1935, approved by five members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"Re telephone message from Mr. Gilson concerning 'Menotomy Trust Company', Arlington, Massachusetts, time specified in condition numbered 20 of the conditions of membership of such bank within which 'Old Colony Trust Associates', Boston, shall obtain a general voting permit is hereby extended to December 1, 1935. Please advise Old Colony Trust Associates and the bank accordingly."

Approved.

Telegram to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, authorizing him to issue a limited voting permit to "Financial Institutions, Inc.", Warsaw, New York, entitling such organization to vote the stock which it owns or controls in "The Wyoming County National Bank of Warsaw", Warsaw, New York, at any time prior to August 1, 1935, to act upon a proposal or proposals to create and issue common and/or preferred stock and to reduce common stock, and to make such amendments to the articles of association, charter and/or by-laws of such bank as may be necessary for such purposes, such proposal or proposals to be in accordance with a plan or plans which shall be satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of New York, and which shall have been approved by the appropriate supervisory authorities. The telegram also stated that the Board had accepted the agreement executed by the applicant under date of May 24, 1935, two executed copies of which had been

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received, and, accordingly, no conditions were imposed in connection with the issuance of the limited permit.

Approved.

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

"Receipt is acknowledged of your letter of May 15, 1935, with reference to the application of Marshall-McCartney Company, Oakes, North Dakota, for a voting permit authorizing it to vote the stock which it owns or controls of The First National Bank of Oakes, Oakes, North Dakota.

"It is noted that the limited voting permit authorizing Marshall-McCartney Company to vote such stock for the election of directors and on routine matters at the bank's annual meeting at any time prior to April 1, 1935, was not issued pursuant to the Board's telegram of December 13, 1934, because that company did not comply with the prescribed conditions until after April 1, 1935. It appears that the bank held its annual meeting on January 8, 1935, and information obtained from the office of the Comptroller of the Currency indicates that Marshall-McCartney Company voted its stock at that meeting although it had not secured a voting permit. The Board concurs in the opinion of your counsel that the issuance of the permit at this time would have no effect and would not validate any action taken at the annual meeting which may have been void because the voting permit was not issued. In the circumstances, the Board believes that it is not necessary for it to take any action in the matter at this time.

"In order that it may be determined whether the holding company affiliate status of Marshall-McCartney Company has been terminated, it will be appreciated if you will obtain the following information concerning the ownership of the outstanding stock of The First National Bank of Oakes and the last election of directors of such bank, which it is understood was held at the annual meeting on January 8, 1935:

- "1. Number of shares of each class of stock voted at the meeting for the election of directors.
- "2. (a) Number of shares owned or controlled and number of shares voted by applicant at the election.
(b) Number of shares now owned or controlled by the applicant.

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- "3. (a) Number of shares owned by the Reconstruction Finance Corporation and voted at the election.
 (b) Holder of the proxy for the stock owned by, and voted for, the Reconstruction Finance Corporation and by whom it was exercised at the election.
 (c) Connection, if any, which such person or persons, who exercised such proxy, had with the bank and/or the applicant.
 (d) Instructions, if any, given by Reconstruction Finance Corporation or any of its agents regarding the manner in which the stock owned by it should be voted. A copy of the letter or letters of instructions should be obtained.
 (e) Provisions, if any, contained in the proxy concerning the manner in which the stock owned by Reconstruction Finance Corporation should be voted for the election of directors. A copy of the proxy containing any such provisions should be obtained.
- "4. Number of shares of each class of stock now outstanding."

Approved.

Letter dated May 31, 1935, approved by five members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of May 14, 1935, inclosing the application of Lincoln Securities Co., Toledo, Oregon, for a voting permit authorizing it to vote the stock which it owns or controls of The First National Bank of Toledo, Toledo, Oregon.

"It appears that a conservator was appointed for the bank on March 27, 1933; that the conservator applied for cancelation of the stock of the Federal Reserve Bank of San Francisco owned by the bank; that such stock was canceled and the membership of the bank in the Federal Reserve system was terminated on May 28, 1934; that the bank was succeeded by The National Security Bank of Toledo; and that the Comptroller of the Currency has requested the Lincoln Securities Co. to secure a voting permit in order to vote the stock of the closed bank to place such bank in formal liquidation.

"In a letter of July 21, 1933, to the Comptroller of the

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"Currency, a copy of which was furnished to you (X-7519), the Board ruled that a corporation owning or controlling stock of a national bank which was not a member of the Federal Reserve system was not a holding company affiliate of such bank and was not required to secure a voting permit in order to vote such stock. Accordingly, it is not necessary for Lincoln Securities Co. to secure a voting permit authorizing it to vote stock of The First National Bank of Toledo and it is assumed that no consideration need be given to its application. It is requested that you so advise that company and the bank. This matter has been discussed with members of the staff of the Comptroller of the Currency and a copy of this letter is being furnished to that office."

Approved.

Telegram to Messrs. Stevens and Peyton, Federal Reserve Agents at the Federal Reserve Banks of Chicago and Minneapolis, respectively, reading as follows:

"Reference is made to Board's wire of May 31, 1935 re order of Banking Commission of State of Wisconsin prescribing maximum rate of interest of 2 percent which may be paid by State banks, mutual savings banks, or trust company banks subject to Wisconsin Banking Statutes after July 1, 1935. In view of provisions of section 24 of Federal Reserve Act and of the order of Banking Commission adopted May 27, 1935, it is the opinion of the Board that maximum rate of interest which has been prescribed by such order will, after July 1, 1935, be the 'maximum rate authorized by law' to be paid upon time or savings deposits by State banks or trust companies organized under the laws of Wisconsin within the meaning of section 24 of the Federal Reserve Act. Accordingly, the rate of interest accruing after that date and during the period such order is legally in effect which a national bank or other member bank located in that State may lawfully pay on time or savings deposits may not exceed the rate of 2 percent per annum prescribed in such order of the Banking Commission. It is believed desirable that notice to this effect be given by you without delay to all member banks in your district located in the State of Wisconsin, calling attention to the applicable provisions of section 24 of the Federal Reserve Act and to subsection (c)(3) of section III and subsection (c)(3) of section V of Regulation Q, as well as to the provisions of the order of the Banking Commission. The order of the Commission does not prevent a State bank from paying interest at such rate as may be provided

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"for in any contract 'now existing' and, accordingly, the Federal Reserve Board will not object to payment of interest by a national bank at a rate greater than 2 percent per annum in accordance with the terms of, and until the termination of, any contract existing on the date on which such bank receives notice from you of the limitation effective after July 1, 1935, provided such rate is otherwise in conformity with the provisions of Regulation Q and the contract is terminated as soon as possible under the terms thereof. Under the provisions of section 210 of H.R. 7617, as passed by the House of Representatives, the pertinent provision of section 24 of the Federal Reserve Act would be repealed; but it is believed that it would be confusing to the member banks and therefore inadvisable to advise them of this possibility in connection with your notice of the reduction in rate by the Banking Commission of Wisconsin."

Approved, together with a letter to Mr. S. N. Schafer, Commissioner, State Banking Department of Wisconsin, reading as follows:

"Receipt is acknowledged of your letter of May 28, 1935, inclosing a copy of an order recently issued by the Banking Commission of the State of Wisconsin, reducing the maximum rate of interest which may be paid by banks in Wisconsin on time and savings deposits to 2 percent per annum after July 1, 1935. The Federal Reserve Agents at the Federal Reserve Banks of Chicago and Minneapolis have been requested to notify the member banks in their respective districts in the State of Wisconsin of the order of the Banking Commission and of the fact that national banks may not after July 1, 1935 pay interest on time and savings deposits at a rate in excess of 2 percent per annum, with an exception as to contracts 'now existing' as provided in the order."

Letter dated May 31, 1935, approved by five members of the Board, to the chairmen of all Federal reserve banks, reading as follows:

"The Board will appreciate it if you will send to it currently clippings from or copies of matter in the nature of comment, articles or speeches published in newspapers, business and financial publications in your district which come to your attention from time to time having a bearing upon industrial loan activities under Section 13(b) of the Federal Reserve Act.

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"The Board does not ask that you set up any new activity in your bank for this special purpose but having no doubt that such material usually comes to your attention assumes that it will not be an added burden for you to comply with this request. The Board feels that an opportunity to see such material will be helpful to it."

Approved.

Letter dated May 29, 1935, approved by five members of the Board, to the chairmen of all Federal reserve banks, reading as follows:

"The Board has been advised by Mr. H. F. Strater, Secretary of the Retirement System, that the Board of Trustees of the Retirement System of the Federal Reserve banks at its meeting held on April 16, 1935, passed the following resolution:

"RESOLVED that, subject to the approval of the Federal Reserve Board, the employing banks of the Retirement System be requested to bear the traveling and subsistence expenses of the members of the Board of Trustees and members of committees necessarily involved in operating the Retirement System."

"The Federal Reserve Board has authorized the payment by its fiscal agent of traveling and subsistence expenses, incurred in attending meetings of the Board of Trustees of the Retirement System and committee meetings connected with the operation of the Retirement System, of its appointee on the Board of Trustees and of the member of the Board of Trustees elected by its employees, and until further notice approves the payment by your bank of similar expenses of members of the Board of Trustees appointed by your bank or elected by employees of your bank."

Approved.

Memorandum dated May 16, 1935, from Mr. James, recommending approval of the following letter to Mr. H. F. Strater, Secretary of the Retirement System:

"This is to advise you that the Federal Reserve Board, on May 29, 1935, approved the changes in the Rules and Regulations of the Retirement System of the Federal Reserve Banks adopted by

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"the Board of Trustees of the Retirement System at its annual meeting on April 16, 1935, as outlined in the excerpt from the minutes of that meeting inclosed with your letter of May 3, 1935.

"Copies of this letter are being sent to Mr. M. J. Fleming, Chairman of the Board of Trustees, and to Mr. L. R. Rounds, Chairman of the Retirement Committee of the Retirement System."

The memorandum also stated that some consideration has been given to the desirability of authorizing the Federal reserve banks to make special contributions for the purpose of providing supplementary retirement allowances for employees involuntarily separated from the service before the attainment of age 65, either because their services are no longer required or because they have ceased to render satisfactory service through no fault of their own, and inquired whether the Board desired to have a definite recommendation submitted to it on this subject.

The letter was approved by five members of the Board on May 29, 1935, and it was decided that the Committee on Salaries and Expenditures should be requested to submit to the Board a recommendation on the matter last referred to above.

Letter to Honorable Usher L. Burdick, House of Representatives, reading as follows:

"This refers to a letter written to you under date of May 19, 1935 by Mr. Peter White of Jamestown, North Dakota, with respect to charges exacted by certain banks in cashing and receiving for deposit checks of the United States Government. Mr. White states that banks in Jamestown are paying at par checks of a certain private corporation but are discriminating against the United States Government checks. He also stated that the United States postmasters are not permitted to keep on hand sufficient funds to cash all Government checks. Mr. White's letter was

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"forwarded to the Board with the request that the statements therein contained be investigated and information furnished you in order that you might reply to the letter.

"The imposition of collection charges by a bank which is neither a member of the Federal Reserve System nor a depositor in a Federal Reserve bank is of course not within the control of the Federal Reserve Board and even banks which are members of the System are permitted by the provisions of the first paragraph of section 13 of the Federal Reserve Act to impose reasonable charges not exceeding 10¢ per \$100 or fraction thereof for the collection or payment of checks and drafts provided that no such charge is made against a Federal Reserve bank. Accordingly there is nothing in the law to prevent a member bank, if it desires to do so, from making a collection charge in an amount not exceeding that stated, with respect to United States Government checks, as well as with respect to other checks, if such charges are not made against a Federal Reserve bank. Under the law the Federal Reserve Board is empowered to regulate the amount of such charges within the limit specified but the Board has issued no such regulations.

"The possibility of payment of United States Government checks by United States postmasters is a matter entirely outside of the jurisdiction of the Federal Reserve Board, with respect to which no opinion is here expressed.

"A copy of this letter is inclosed for your convenience and, in accordance with the request on the printed forwarding slip received by the Board, the original of Mr. White's letter is returned to you herewith."

Approved.

Letter to Rear Admiral C. J. Peoples, Director of Procurement, Procurement Division of the Treasury Department, reading as follows:

"Reference is made to your letter of April 23, 1935, addressed to the Chairman of the Federal Reserve Board in regard to the order approved by the President on April 12, 1935, setting forth the responsibility of the Procurement Division, Branch of Supply, with reference to the policies and methods of coordination and consolidation of the functions of the various Government establishments relating to the procurement, warehousing, and distribution of commodities.

"As it is the desire of the Board to cooperate when it consistently can with other agencies of the Government, Mr. J. C. Noell, Assistant Secretary of the Federal Reserve Board, who

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"customarily handles these matters, has been designated as its authorized representative to act in a liaison capacity, with whom you may communicate concerning the transaction of business between your division and the Board."

Approved.

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

"Receipt is acknowledged of your letter of May 8, 1935, relating to the question whether under certain facts an affiliate relationship exists within the meaning of section 2(b)(2) of the Banking Act of 1933.

"You state that certain shareholders of a member bank own or control more than 50 per centum of the number of shares voted at the last election of the bank's directors and also own or control more than 50 per centum of the number of shares voted at the preceding election of directors of a business corporation but less than a majority of the outstanding shares of stock of such business corporation.

"Your letter does not state whether the shareholders in question voted their stock at the next preceding elections of directors of the member bank and the business corporation. In this connection, you are advised that the Board recently ruled that a holding company affiliate relationship did not exist under the provision of section 2(c)(1) of the Banking Act of 1933, 'which owns or controls directly or indirectly * * * more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election', where the possible holding company affiliate did not vote the stock which it owned or controlled at the preceding election of directors of the bank.

"Your specific inquiry is whether it is necessary for the shareholders of the member bank to own or control a majority of the outstanding shares of stock of the business corporation in order for that corporation to be one 'of which control is held, directly or indirectly, through stock ownership or in any other manner' by such shareholders of the member bank. Considering the quoted provision in the light of the other provisions of sections 2(b) and 2(c) of the Banking Act of 1933, the Board believes that it is clearly the intent of the law that control should be deemed to exist where the shareholders owning or controlling the required number of shares of stock of the member bank own or control and voted more than 50 percent of the shares

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"voted for the election of directors of the business corporation at the preceding election. If, in the light of this letter, you desire a further ruling by the Board on the particular case which you have in mind, please furnish full information concerning all the facts having a bearing on the question."

Approved.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of May 13, 1935, relating to the application of First Security Corporation of Ogden, Ogden, Utah, for a voting permit authorizing it to vote the stock which it owns or controls of certain banks and submitting information with reference to the possible termination of the holding company affiliate relationships.

"The Board understands that First Security Bank of Utah, N.A., has outstanding 6000 shares of preferred stock and 4000 shares of common stock; that at the time of the bank's 1935 annual meeting First Security Corporation of Ogden owned or controlled 3898.8 shares of the common stock and that it now owns or controls 3901.2 shares of such stock; that all of the preferred stock was and is owned by the Reconstruction Finance Corporation; that at the bank's 1935 annual meeting 3920.8 shares of common stock and all of the shares of the preferred stock, or a total of 9920.8 shares, were voted; and that First Security Corporation of Ogden voted all of the shares which it then owned or controlled.

"The Board understands that First Security Bank of Idaho has outstanding 7350 shares of preferred stock and 5000 shares of common stock; that at the time of the bank's 1935 annual meeting First Security Corporation of Ogden owned or controlled 4935 shares of the common stock and that it now owns a like number of shares of such stock; that all of the preferred stock was and is owned by the Reconstruction Finance Corporation; that at the bank's 1935 annual meeting 4950 shares of common stock and all of the shares of preferred stock, or a total of 12,300 shares, were voted; and that First Security Corporation of Ogden voted all of the shares which it owned or controlled.

"The Board also understands that the proxies voting the stock owned by the Reconstruction Finance Corporation at the annual meetings of First Security Bank of Utah, N. A. and First Security Bank of Idaho were not connected in any way with such banks or First Security Corporation of Ogden and were given

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"instructions which read in part as follows:

"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. 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 First Security Corporation of Ogden is not a holding company affiliate of First Security Bank of Utah, N.A. or First Security Bank of Idaho and it is assumed that no further consideration need be given to the granting of voting permits authorizing the voting of the stock of these banks which is owned or controlled by that corporation. If there are any further facts which you believe should be brought to the attention of the Board, the Board will be glad to give further consideration to the matter. In the absence of such facts, you may advise First Security Corporation of Ogden and the two banks in accordance with this letter. It may be noted that if the Reconstruction Finance Corporation should in the future issue proxies to First Security Corporation of Ogden, or a person under its control, a further question might arise concerning the existence of holding company affiliate relationships and it is suggested that you call this to the attention of the institutions involved.

"The Board understands that First National Bank of Salt Lake City has outstanding 2500 shares of preferred stock and 7500 shares of common stock; that at the time of the bank's 1935 annual meeting First Security Corporation of Ogden owned or controlled 3979.6752 shares of the common stock and that it now owns or controls 4133.9404 shares of such stock; that all of the preferred stock was and is owned by the Reconstruction Finance Corporation; that at the bank's 1935 annual meeting all of the shares of preferred stock and 4954.2144 shares of the common stock, or a total of 7454.2144 shares, were voted; and that First Security Corporation of Ogden voted all of the stock which it owned or controlled.

"On the basis of these facts, First Security Corporation of Ogden clearly is a holding company affiliate of First National Bank of Salt Lake City and, accordingly, further consideration must be given to the granting of a voting permit authorizing that corporation to vote the stock which it owns or controls of such bank."

Approved.

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Letter dated May 31, 1935, approved by five members of the Board, to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Receipt is acknowledged of your letter of April 26, 1935, inclosing a letter from Mr. W. W. Smith, President of the First National Bank in St. Louis, and an opinion of General Counsel for your bank, with further reference to the application of Mr. Sydney M. Shoenberg under the provisions of section 32 of the Banking Act of 1933 for a permit to be at the same time a director of the national bank and a dealer in securities under the name of Sydney M. Shoenberg & Company, both of St. Louis, Missouri.

"It appears from the information contained in your letter that the company is owned solely by Mr. Shoenberg and that the company name is used in order that it may obtain a dealer's discount in the purchase of securities; that all of the securities which it purchases are for the account of Mr. Shoenberg personally, his immediate family, and their personal investment companies; and that 'no securities are sold to outside parties'.

"Your General Counsel has expressed the view that the relationships involved are within the literal terms of section 32, but you recommend that Mr. Shoenberg be permitted to serve as a director of the national bank. However, as you know, it is the Board's policy not to issue permits authorizing a dealer in securities to serve a member bank, except in extraordinary cases, and therefore it appears to be desirable to consider further the question whether section 32 is actually applicable in this case. In this connection, it is understood that Sydney M. Shoenberg & Company is not incorporated but is merely the name under which Mr. Shoenberg does business in purchasing and selling securities for himself, his family and their personal investment companies. Under the circumstances, it is possible that the applicability of section 32 to Mr. Shoenberg should be determined on the basis of principles similar to those discussed in the Board's letter of March 12, 1934 (X-7820), relating to the distinction between organizations engaged in investing funds and organizations engaged in dealing in securities within the meaning of section 32; and in this connection, it is suggested that you obtain information as to the approximate volume of purchases and sales, respectively, made by Sydney M. Shoenberg & Company during the past three years, stated in percentages of the total securities owned by Mr. Shoenberg, and in percentages

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"of total securities owned by 'his immediate family and their personal investment companies'; and as to whether Sydney M. Shoenberg & Company participates in transactions involving the underwriting, flotation and distribution of securities for the purpose of obtaining a distributor's or underwriter's profit and not merely for the purpose of acquiring securities at a discount for investment for Mr. Shoenberg, his family and their personal investment companies. In this connection it is noted that Mr. Smith states that neither Mr. Shoenberg nor the Company advertises or solicits the sale of securities and that the only activity of the company is the purchase and sale of securities for the members of Mr. Shoenberg's immediate family and their personal investment companies. Perhaps these statements dispose of the last question, although it is not entirely clear. It will also be appreciated if you and your General Counsel will reconsider the matter in the light of such additional information and advise the Board.

"As noted in the Board's letter of March 11, 1935, Mr. Shoenberg states in his application that he is serving as president and director of Globe Investment Co. and Shoenberg Trust Estate, both of St. Louis, Missouri, and it was assumed in the Board's letter that you had in mind the possibility that the provisions of section 32 might be applicable to his service to these companies. The companies may merely be the personal investment companies of Mr. Shoenberg's family referred to above, but it will be appreciated if you will advise as to your conclusions with regard to these companies."

Approved.

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

Mr. George G. Cochran, to serve at the same time as a director and officer of The First National Bank of Perryopolis, Perryopolis, Pennsylvania, and as a director and officer of The First National Bank of Dawson, Dawson, Pennsylvania, for the period ending January 14, 1936.

Mr. Jacob France, to serve at the same time as a director and officer of The Equitable Trust Company of Baltimore, Baltimore, Maryland, as a director of the Maryland-Virginia Joint Stock Land Bank, Baltimore, Maryland, and as a director of The Commercial National Bank and Trust Company of New York, New York, New York, for the period ending January 14, 1936.

Approved.

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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 First National Bank of Westminster, Westminster, Maryland	2	
The First National Bank of Yorktown, Yorktown, Virginia	<u>9</u>	11
<u>District No. 9.</u>		
The National Bank of Lakota, Lakota, North Dakota	5	
The Peoples National Bank of Long Prairie, Long Prairie, Minnesota	<u>9</u>	<u>14</u>
	Total	25
 <u>Applications for SURRENDER of Stock:</u>		
<u>District No. 2.</u>		
The West Winfield National Bank, West Winfield, New York	10	10
<u>District No. 9.</u>		
The First National Bank of Mondovi, Mondovi, Wisconsin	9	9
<u>District No. 10.</u>		
The First National Bank of Johnstown, Johnstown, Colorado	12	12
<u>District No. 11.</u>		
The First National Bank of Matador, Matador, Texas	22	22
<u>District No. 12.</u>		
The First National Bank of Lemoore, Lemoore, California	<u>108</u>	<u>108</u>
	Total	161

Approved.

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Thereupon the meeting adjourned.

W. Foster Tompkins
Secretary.

Approved:

W. Steeles
Governor.