

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Friday, June 7, 1935, at 11:00 a. m.

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

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

The Committee acted upon the following matters:

Letter dated June 6, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated June 6 from Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, and June 7 from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, and Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, all advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letter to Mr. Coleman, Deputy Governor of the Federal Reserve Bank of Dallas, reading as follows:

"The Federal Reserve Board approves the recommendation contained in your letter of May 24 that the temporary employment of Mr. L. O. Moore, Jr. as Senior Clerk, Collection Division, Houston Branch, at an annual salary of \$1,920, which is \$120 in excess of the salary range provided for the position, be continued for an additional period of six months from June 20, 1935."

Approved.

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Memoranda dated May 31, 1935, from the Committee on Salaries and Expenditures, submitting letters dated May 17, 1935, from Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, which requested approval of certain changes in the personnel classification plan of the bank. The memoranda stated that the Committee had reviewed the proposed changes and recommended that the changes concerning the Foreign and Government Bond and Safekeeping Departments be approved effective currently, and the other changes be approved effective as of January 1, 1935, with the exception of the proposed increase in salary range from \$2100-\$2600 to \$3000-\$4000 for the position of "Chief, Stenographic Division", with regard to which it was recommended that action be deferred pending receipt of more detailed information.

Approved.

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

"Reference is made to your letter of June 4, 1935, transmitting the request of the 'Bar Harbor Banking and Trust Company', Bar Harbor, Maine, which was admitted to membership on December 9, 1933, for an extension of time of one month, to July 9, 1935, within which it may comply with that portion of membership condition numbered 21 which provides that

'Within one year after date of admission to membership, such bank, if it has not already done so, shall reduce to an amount prescribed by the limits of the laws of the State of Maine the loan of \$170,000 to Mr. G. H. Parker which is shown in the report of examination of such bank made as of July 10, 1933, by an examiner for the Federal Reserve Bank of Boston, as being in excess of such limits.....'

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"On November 3, 1934, the Board extended to June 9, 1935, the time within which the bank might comply with the portion of membership condition numbered 21 above referred to.

"It has been noted that the loan to Mr. G. H. Parker was legal when made but became excessive in 1931 due to a change in the State law, that the report of examination of the bank as of April 13, 1935, indicates that the loan has been reduced to \$159,000 and that it is apparently covered by collateral, and that the president of the bank has requested the additional extension of time in order to discuss the matter with his directors and to adjust the loan in question.

"In view of the circumstances and your recommendation, the Board extends to July 9, 1935, the time within which the Bar Harbor Banking and Trust Company may comply with the provisions of membership condition numbered 21 by reducing its loan to Mr. G. H. Parker to an amount within legal limits, and it is requested that you advise the bank accordingly."

Approved.

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

"Re Young's letter May 24, 1935 regarding 'The Merchants Trust and Savings Company of Muncie, Indiana', Board extends to December 18, 1935, time within which bank may comply with condition of membership numbered 21. Please advise the bank accordingly."

Approved.

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

"Reference is made to the report of examination of the trust department of 'The Southington Bank and Trust Company', Southington, Connecticut, as of February 27, 1935, wherein it is stated that securities pledged with the trust department to secure trust funds deposited in the banking department of the bank are not sufficient to cover such funds deposited in the bank's savings department in addition to those deposited in the commercial department, and the examiner states that there is some question as to

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"whether or not the deposits in the savings department are required to be secured.

"As you know, The Southington Bank and Trust Company is subject to a condition of membership numbered 18 requiring the deposit of securities with the trust department to secure trust funds deposited in the bank's 'banking department' in the same manner and to the same extent as is required of national banks exercising trust powers. It would seem clear that the term 'banking department' includes the savings department of the bank. In the Board's Regulation F, applicable to national banks, the savings department is specifically referred to in connection with the requirements relating to the deposit of trust funds in the banking department of the bank. You had previously advised that the Treasurer of The Southington Bank and Trust Company considered the deposits in the savings department as investments of trust funds; but you have not requested any ruling from the Board as to whether such trust funds may properly be considered as investments rather than deposits and not coming within the provisions of the condition of membership above referred to, and it is possible that this matter has already been disposed of by your office. However, it will be appreciated if you will advise the Board what disposition has been made of the matter, and, if you desire a ruling, it will be necessary for the Board to be furnished with full information as to the facts involved relating to the question whether the trust funds in the savings department are investments or deposits. Any such request should, of course, be accompanied by your recommendation in the premises.

"The examiner has also raised the question as to whether it is necessary under the condition of membership referred to above for funds, belonging to agency and corporate accounts in the trust department to be secured by the deposit of securities if such funds are deposited in the banking department of the bank. It will be appreciated if you will advise as to what disposition has been made of this matter.

"In this connection, it is assumed that you have given consideration to rulings of the Board published on page 1435 of the Federal Reserve Bulletin for December 1921 and on page 572 of the Federal Reserve Bulletin for May 1922.

"It has been noted that securities pledged by The Southington Bank and Trust Company to secure trust funds deposited in its banking department by its own trust department are held in safekeeping at the Phoenix State Bank and Trust Company, Hartford, Connecticut, and that the examiner raised the question as to whether such holding of the securities complies with the condition of membership numbered 18 to

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"which the bank is subject. From the standpoint of the beneficiaries of the trusts to which the trust funds belong, it would seem that it would ordinarily be desirable for the securities pledged by the banking department to be held in the trust department itself, and it is possible that you have already disposed of this point. However, if you should desire a ruling as to whether the Board will consider the holding of such securities by another bank in safekeeping as a compliance with the requirements of the condition numbered 18, the Board would like to have your recommendation in the matter, together with an opinion of your counsel as to whether, in the event of the insolvency of the bank holding such securities in safekeeping, the trust department of The Southington Bank and Trust Company would have a prior claim to such securities, or in an equivalent amount, over creditors of the depository bank, particularly if such securities should have been pledged by the depository bank or otherwise used in its own business."

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 20, 1935, in which you state that the Commercial Bank of L'Anse, Michigan, which is at present operating a branch at Greenland, Michigan, desires to make immediate application for membership in the Federal Reserve System, provided the Board will agree to allow the bank to have one year within which to terminate the Greenland branch. You ask for a statement as to the Board's attitude with regard to the matter.

"As you know, the provisions of the Federal Reserve Act relating to the admission to membership in the Federal Reserve System of State banks with branches are explicit, and the Board now has no authority under the law to admit a State bank to membership under the circumstances covered by your letter. However, your attention is invited to the provisions of section 202 of the proposed Banking Act of 1935 (H.R. 7617), as it passed the House of Representatives, which would authorize the Board, in its discretion, in order to facilitate the admission of State banks to membership in the Federal Reserve System which have obtained the benefits of insurance by the Federal Deposit Insurance Corporation, to waive in whole or in part the requirements of section 9 relating to the admission of State banks to

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"membership. The enactment of this provision would permit the Federal Reserve Board, if it deemed it advisable to do so under the circumstances, to admit to the Federal Reserve System a State bank having a branch established since February 25, 1927, outside the city in which the head office is located, even though such bank does not have the capital required for the establishment of branches by national banks. It is suggested that you advise the Commercial Bank of L'Anse accordingly, and the bank may wish to defer further action on an application for membership until Congress has finally acted on the proposed Banking Act of 1935."

Approved.

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

"This refers to your letter of March 21, 1935, and previous correspondence relative to compliance by the Springfield Marine Bank, Springfield, Illinois, and other State member banks in Illinois with the condition of membership prescribed by the Board which is to the effect that if trust funds held by the bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit securities with its trust department to secure the payment of such funds.

"It appears from the information submitted with your letter that the statutes of Illinois do not contain any provisions relating to the deposit of securities to secure the payment of trust funds held by banks in that State and deposited in their own banking departments. It also appears that counsel for your bank and counsel for the Springfield Marine Bank, after consideration of decisions in cases having a bearing on the matter, have concluded that the deposit of securities to secure the payment of trust funds under the conditions described above is, in effect, a pledge and that the right of a State bank in Illinois to deposit securities in compliance with the Board's condition of membership is extremely doubtful. As you know, the Board has consistently held that the condition of membership referred to above contemplates that any deposit of securities in the trust department of a member bank to secure trust funds deposited in its banking department or otherwise used in the conduct of its business shall result in the creation of a valid pledge for the security of such funds, and if under the laws of the State in which a particular State member bank is

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"located such a pledge may not lawfully be made, the bank should not deposit trust funds in its banking department or otherwise use such funds in the conduct of its business. After careful consideration of all the circumstances involved in this matter, the Board feels that, in view of the absence of statutory authority for a State bank in Illinois to pledge its assets to secure deposits of trust funds and in view of the extreme doubt that trust funds deposited with the banking department of a State bank in Illinois would result in a valid pledge to secure the payment of such funds, State member banks in Illinois should not deposit trust funds in their own banking departments or otherwise use such funds in the conduct of their business.

"As you know, the Board has taken the position that, in States where under the State law trust funds deposited in the trustee's banking department are fully protected by a statutory preference in all of the assets of the bank over its general creditors, such a preference affords adequate protection for such trust funds and that it is therefore justified in waiving compliance with the condition of membership referred to by banks in those States. However, it is noted from your letter of March 23, 1935, that the laws of Illinois do not provide any safeguards by way of preference or otherwise for the protection of trust funds held by a State bank and deposited in its banking department and, therefore, on this basis, the Board would not feel justified in waiving compliance with the condition of membership.

"You pointed out that the State Banking Department has stated that, while the laws of Illinois do not give State banks the right to pledge assets to secure trust deposits, it would offer no objection to such pledge if the Federal Reserve Board imposed such condition and that the Attorney General of Illinois in an opinion rendered to the Auditor of Public Accounts on January 30, 1934, stated, in part, as follows:

'While there is no such like requirement in the State Banking Act, the Federal Reserve Board has the unquestionable right to make reasonable rules and regulations conditional upon which membership in the Federal Reserve System is granted. * * * I am of the opinion that such a requirement is entirely legal.'

In this connection, it may be noted that the condition prescribed by the Board does not purport to confer any powers upon a bank accepting such condition. That condition does not require the bank to deposit trust funds

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"in its own banking department, but merely provides that if such a deposit is made, the bank shall deposit securities to secure the trust funds deposited in its banking department. Furthermore, it is not believed that the failure of the State banking authorities to object to banks pledging assets to secure the payment of trust funds so deposited would have a material bearing upon the question in the event of litigation.

"In the circumstances, it is suggested that you advise the Springfield Marine Bank and other member banks in Illinois which are subject to the condition of membership of the Board's views in the matter in order that they may take appropriate steps to comply with the condition if they have not already done so. In this connection, you may wish to consider the advisability of suggesting to the member banks involved the possibility of obtaining amendments to the State law which will permit them to comply with the requirements of the condition of membership if the banks deem it essential to deposit trust funds in their own banking departments.

"A copy of this letter is being forwarded to the Federal Reserve Agent at the Federal Reserve Bank of St. Louis, since a portion of the State of Illinois is included in his district."

Approved.

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

"Receipt is acknowledged of your supplemental memorandum of May 31, 1935, in regard to the proposed reduction in common capital stock of 'The New London City National Bank', New London, Connecticut, from \$200,000 to \$100,000, which was approved by the Federal Reserve Board on March 1, 1935, pursuant to a plan which provided for the sale of \$150,000 of additional preferred stock to the Reconstruction Finance Corporation and the elimination of \$100,000 of the least desirable assets in the bank.

"In accordance with your recommendation, the Board amends its previous approval to provide for the sale of \$100,000 of Class 'A' preferred stock to the Reconstruction Finance Corporation and \$25,000 of Class 'B' preferred stock to local interests in lieu of the sale of \$150,000 of preferred stock to the Reconstruction Finance Corporation formerly contemplated, with the understanding that the other provisions of the plan as originally approved

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"remain unchanged, all as set forth in your supplemental memorandum of May 31, 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 National Lumberman's Bank of Muskegon', Muskegon, Michigan, from \$300,000 to \$150,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$400,000 of preferred stock to the Reconstruction Finance Corporation and/or others, and that the released capital, together with the bank's surplus account, shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in your memorandum of May 29, 1935.

"In considering the plan under which the reduction in common capital stock is to be effected, it has been noted that your examiner severely criticised the active management of the bank. It is assumed, however, that this matter is receiving the attention of your office."

Approved

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

"Reference is made to your letter of May 27, 1935, regarding the suggested reductions by the 'Sault Savings Bank' and the 'Central Savings Bank', both of Sault Ste. Marie, Michigan, in the preferred stock issued to the Reconstruction Finance Corporation.

"It is understood that neither bank has initiated steps to retire part of its preferred stock, but that the Deputy Commissioner of Banks of the State of Michigan has suggested that reductions might safely be made in the case of the Sault Savings Bank and the Central Savings Bank, which, according to recent reports of examination, had a capital ratio to deposits of approximately 1 to 5. You recommend that the Sault Savings Bank be allowed to reduce its preferred 'A' stock from \$175,000 to \$75,000, and the Central Savings Bank to reduce its

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"preferred 'A' stock from \$125,000 to \$75,000.

"Neither of the banks is subject to a condition of membership requiring the Board's approval for a reduction in capital, and, in view of the condition of the banks as reflected in the reports of examination as of April 23 and April 29, 1935, respectively, and your recommendation, the Board will interpose no objection to the reductions in preferred stock suggested in your letter of May 27, 1935."

Approved.

Telegram dated June 6, 1935, approved by five members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, authorizing him, subject to the conditions prescribed in the telegram, to issue a limited voting permit to "Western Massachusetts Investment Associates", Greenfield, Massachusetts, entitling such organization to vote the stock which it owns or controls in the "First National Bank & Trust Company of Greenfield", Greenfield, Massachusetts, for the purpose of acting at any time prior to November 1, 1935, upon a proposal to change the number of shares of common and/or preferred stock and to change the par value of shares of common and/or preferred stock of such bank, and to make such amendments to the articles of association and/or by-laws of such bank as shall be necessary for such purposes, all in accordance with a plan satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Boston and approved by the Comptroller of the Currency.

Approved.

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

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"Relet June 4. The time specified in condition numbered 18 of the conditions of membership of 'Watkins State Bank', Watkins, Glen, New York, within which 'First National of Elmira Corporation', Elmira, New York, shall obtain a voting permit entitling it to vote the shares of stock now or hereafter controlled by it of such bank and of all its other subsidiary member banks for all purposes is hereby extended to December 1, 1935. Please inform the bank and the holding company affiliate accordingly."

Approved.

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

"Relet June 4. The time specified in condition numbered 21 of the conditions of membership of 'City Bank Farmers Trust Company' within which 'The National City Bank of New York' shall obtain a voting permit entitling it to vote for all purposes the shares of stock owned or controlled by it of such bank is hereby extended to December 1, 1935. Please inform The National City Bank of New York and City Bank Farmers Trust Company accordingly."

Approved.

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

"Reference is made to your letter of May 29, 1935, concerning the suggestion contained in the Board's letter of May 3, 1935, to the effect that the 2,549 shares of its own preferred stock acquired by the 'Worcester County Trust Company', Worcester, Massachusetts, under the plan for its reorganization, might be placed in the hands of trustees and held for the benefit of common stockholders in such a way that the bank will not be a holder thereof within the meaning of the provisions of Section 5201 U. S. R. S.

"It is noted that a question has arisen as to whether the beneficiaries of the trust should be the common stockholders, the preferred stockholders or all stockholders.

"At the time it was suggested that consideration be given to such an arrangement, as one of the possible methods by which the bank might dispose of the stock in question in order to comply with the provisions of the law, it was

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"thought that probably the stock would be held until retired, in accordance with the terms of its issue and, therefore, that the common stockholders would be the ultimate beneficiaries. However, it was contemplated that any trust agreement adopted would adequately protect any interest which both the preferred and common stockholders of the bank might have in the preferred stock owned by the Worcester County Trust Company, and it would seem that this would be accomplished by trusteeing the stock for the benefit of all the stockholders of the bank as their interest may appear. The bank and its counsel should, of course, be satisfied that any such agreement is drawn in such manner as to protect the rights of all parties at interest."

Approved.

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

"Inclosed herewith is a copy of the form of 'Option Agreement' which the Board understands is ordinarily executed by First Bank Stock Corporation and persons to whom that corporation transfers bank stock in order to qualify them as directors of subsidiary banks. In connection with the Board's consideration of an application for a voting permit the question has arisen as to whether a person holding the required amount of stock of a national bank subject to such an agreement is qualified to serve as a director of the bank and an expression of your opinion concerning the matter will be appreciated."

Approved.

Letter dated June 6, 1935, approved by four members of the Board, to Mr. Burgess, Secretary of the Federal Open Market Committee, reading as follows:

"In a telephone conversation this morning you requested, for the purpose of incorporation in the Federal Open Market Committee minutes of the meeting with the Board on May 28, 1935, a copy of the letter received by the Board under date of May 4 from Governor Schaller of the Federal Reserve Bank of Chicago, and a copy of

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"the Board's reply and accompanying memorandum under date of May 25, 1935, with regard to a reduction by the Federal reserve banks in their total holdings of United States Government securities.

"A copy of the correspondence referred to is attached."

Approved.

Memorandum dated June 3, 1935, from Mr. Morrill, recommending, with the approval of Mr. Miller, Chairman of the Building Committee, that the Board authorize the payment of two vouchers submitted for reimbursement of the National Park Service of the Department of the Interior for the time of employees of that organization consumed in rendering assistance in connection with the preparation of the program of competition for the selection of an architect for the construction of the new building of the Federal Reserve Board and the determination of the procedure to be followed in connection with the destruction of the present temporary building on the site acquired by the Federal Reserve Board. The memorandum stated that one of the vouchers is for the time of Mr. J. L. Nagle during January, February and April, aggregating 34 hours and amounting to \$95.79 and that the other voucher is for the time of Mr. E. H. Martin, 46 hours, and Mr. H. S. Runacres, 28 hours, for a total of \$94.27.

Approved.

Memorandum dated June 5, 1935, from Mr. Carpenter, Assistant Secretary, to which was attached a memorandum dated May 28 from Mr. Hamlin stating that if the Board will have the parts of the Oxford English Dictionary, which he loaned to the Board several years ago,

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properly bound and will purchase from the publishers the recently issued supplement to the dictionary at a cost of \$40, he will give the dictionary to the Board as its own property. Mr. Carpenter's memorandum stated that an estimate of \$65 had been obtained from the Government Printing Office for binding the 12 volumes and the supplement in buckram binding; that the R. P. Andrews Paper Company had submitted a bid of \$71.50 for the same work; and that on the basis of the estimate from the Government Printing Office, the total expenditure for the purchase of the supplement and for the binding of the 12 volumes and the supplement would be \$105.

The expenditure of the amount necessary for the purchase of the supplement and the binding of the dictionary and supplement by the Government Printing Office was approved.

Letter dated June 6, 1935, approved by five members of the Board, to Governor Calkins, Chairman of the Governors' Conference, reading as follows:

"Under date of April 26 you were advised by wire, a copy of which is inclosed, that the Board had received under date of April 22 a letter from the Treasury Department to the effect that it was preparing to call at an early date for new bids for furnishing insurance policies covering Governmental shipments of currency, coin, bullion, securities, etc., for the fiscal year 1936. In that wire it was suggested that you forward to all Federal Reserve banks copies of the report of the Insurance Committee of the Governors Conference, on certain questions raised in regard to insurance on shipments of Federal Reserve notes from Washington to Federal Reserve banks and their branches, and request that they furnish the Board their views on the Committee's recommendations as soon as practicable.

"On the same date, April 26, the Board wrote a letter, copy attached, to Mr. William H. McReynolds, Administrative Assistant to the Secretary of the Treasury, in reply

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"to his letter of April 22. In this letter the Board advised Mr. McReynolds that it had received a report from the Insurance Committee of the Governors Conference recommending that all movements of new Federal Reserve notes between Washington and the Federal Reserve banks and their branches, on which shipments the Federal Reserve banks actually pay for the insurance, be covered under the insurance policies of the Federal Reserve banks, and that as soon as the Board had heard from the Federal Reserve banks it would communicate with Mr. McReynolds further regarding the advisability of the System's participation in the insurance policies covering Governmental shipments of currency, coin, bullion, securities, etc., during the fiscal year ending June 30, 1936.

"The Treasury was advised informally that the Federal Reserve banks concurred in the Committee's recommendations and on May 21 Mr. T. J. Coolidge, Under Secretary of the Treasury, acknowledged the receipt of our letter of April 26 and stated that the Department would include in the instructions to bidders in connection with the new insurance policies for the fiscal year 1936 a statement informing the insuring companies that shipments of new Federal Reserve notes from Washington to the Federal Reserve banks and branches and shipments of unfit, new and old series Federal Reserve notes from the Federal Reserve banks and branches to the Treasury will not be insured under the Treasury's policy beginning July 1, 1935. In his letter Mr. Coolidge stated that he assumed the Board would take appropriate steps to relieve the Comptroller of the Currency of the necessity of placing insurance on Federal Reserve notes under the Treasury's new policy and that the Board would issue the necessary instructions with respect to the insurance of Federal Reserve notes shipped by the Comptroller of the Currency after June 30, 1935. A copy of Mr. Coolidge's letter is inclosed.

"Copies of this letter and inclosures are being sent to Mr. L. R. Rounds, Chairman of the Insurance Committee of the Governors Conference, with the request that after the question has been reviewed by the Committee he communicate with the Board with regard to the procedure which should be followed after June 30, 1935, in insuring Federal Reserve notes shipped from Washington to the Federal Reserve banks.

"It is assumed that you will forward a copy of Mr. Coolidge's letter of May 21 to all of the other Federal Reserve banks."

Approved.

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Letter dated June 6, 1935, approved by five members of the Board, to Mr. M. J. Ward, Minneapolis, Minnesota, reading as follows:

"Receipt is acknowledged of your letter of May 29 to Mr. J. J. Thomas of the Federal Reserve Board, regarding the rejection by the Federal Reserve Bank of Minneapolis of the application of Mr. David Persha of the City Market Company, Duluth, for an industrial loan.

"In response to our request for information we have received a letter from Mr. Harry Yaeger, Deputy Governor of the Federal Reserve Bank of Minneapolis, indicating that Mr. Persha's application was given thorough and conscientious consideration by the bank's Executive Committee before action was taken thereon. The Industrial Advisory Committee originally approved Mr. Persha's application on condition among other things 'that the loan be secured by warehouse receipts for the merchandise to be purchased and to be held in storage, plus additional merchandise on hand in warehouse'. The Executive Committee of the Reserve bank, however, did not regard the security to be pledged as satisfactory, especially in view of the fact that the warehouse in which the goods would be stored was owned by the applicant and there would, therefore, be no independent responsibility of warehousing, with supervision of withdrawals and accounting. Section 13b of the Federal Reserve Act requires that industrial loans be made 'on a reasonable and sound basis', and it appears that the bank did not feel that a loan on the terms proposed by Mr. Persha would meet this requirement of the law.

"A further consideration was that after the application had been passed on by the Industrial Advisory Committee the Executive Committee of the bank learned that Mr. Persha's bank in Duluth was willing to lend the amount desired provided the required security was furnished. Since the Reserve bank is authorized to make direct loans under the terms of Section 13b of the Federal Reserve Act only when credit is not available from the usual sources on a reasonable basis, and since it is not intended that the Federal Reserve banks should enter into competition with their own member banks or other financing institutions, it did not appear to the Executive Committee that in the circumstances the loan should be made by the Federal Reserve bank, particularly as the Committee decided that if the loan were to be made on a reasonable and sound basis, as required by law, the Reserve bank would have to require as

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"much collateral as was asked for by the local bank.

"Under the law the bank has final authority to act upon applications, and its action seems to have been determined upon only after careful consideration by the members of its Executive Committee of the conditions under which the loan was to be made, and after Mr. Persha had been given an opportunity to appear with his counsel before the Committee.

"The Federal Reserve Board regrets that Mr. Persha's application had to be rejected, but since it is evident that it was conscientiously considered by the Executive Committee of the Reserve bank it does not appear that grounds exist for further action by the Board in the matter."

Approved.

Letter dated June 6, 1935, approved by five members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"This refers to Mr. Fry's letter of May 27, 1935, regarding possible violations of section 22(g) of the Federal Reserve Act involving The Peoples Bank of Montross, Montross, Virginia, and Messrs. McFadon, President, and Charles E. Stuart, Vice President of such bank. With respect to the indebtedness of Mr. McFadon, it is noted that the matter has been called to the bank's attention in accordance with the procedure set forth in the Board's letter of February 13, 1935 (X-9124) and that your office has been advised that satisfactory correction will be made by June 16, 1935. The Board agrees with Mr. Fry that if the correction is made by that time, it will not be necessary to report the matter to the United States Attorney.

"With respect to the indebtedness incurred by Mr. Charles E. Stuart, it is noted that Mr. Fry does not regard him as an executive officer of the bank and in the circumstances asks the Board's advice whether or not the matter should be reported to the United States Attorney. The Board's files indicate that on December 3, 1934, you were advised, with respect to another possible violation of Section 22(g) of the Federal Reserve Act on the part of Mr. Stuart, that notwithstanding the fact that it appeared Mr. Stuart was an inactive officer of the bank and that his principal occupation was that of attorney and canner, the Board had taken the position that the deter-

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"mination of the question of who is to be considered an executive officer in cases of this kind is a function entirely within the jurisdiction of the Department of Justice and the Attorney General was accordingly advised of the possible violation. In the circumstances, it is suggested that you advise the member bank and Mr. Stuart that the Board cannot undertake to determine whether or not Mr. Stuart is an executive officer within the meaning of section 22(g) of the Federal Reserve Act. It is also suggested that you handle the matter in the light of the Board's letter of February 13, 1935, (X-9124) and if a correction is effected within a reasonable time it will not be necessary for you to report the matter to the United States Attorney."

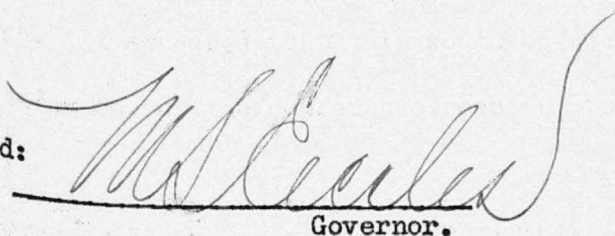
Approved.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Governor.