

A meeting of the Federal Reserve Board was held in Washington on Tuesday, June 18, 1935, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Telegram dated June 14, 1935, from Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, 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 June 12, 1935, from Mr. Wyatt, General Counsel, recommending the appointment of Mr. Richard A. Hill as a stenographer in the legal division, with salary at the rate of \$1,680 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed a satisfactory physical examination.

Approved.

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

"Your letter June 10. Board approves employment of B. E. Etcheverry in your division of Analysis and Research with salary

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"at rate of \$1920 per annum effective July 1, 1935."

Approved.

Memorandum dated June 12, 1935, from the Committee on Salaries and Expenditures, submitting a letter dated June 4 from Mr. Preston, Deputy Governor of the Federal Reserve Bank of Chicago, which requested approval of certain changes in the personnel classification plan of the bank. The memorandum stated that the Committee had reviewed the proposed changes and recommended that they be approved.

Approved.

Telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, referring to the application of the "Bank of Marvell", Marvell, Arkansas, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Bank of Marvell, the Federal Reserve Bank of St. Louis is authorized to cancel such stock and make a refund thereon.

Approved.

Telegram dated June 15, 1935, approved by three members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, referring to the application of "The Valley Bank and Trust Company", Phoenix, Arizona, for permission to withdraw immediately from membership in the Federal Reserve

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System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to The Valley Bank and Trust Company, the Federal Reserve Bank of San Francisco is authorized to cancel such stock and make a refund thereon.

Approved.

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

"Question raised in connection with issuance of voting permit to The First National Bank of Philadelphia has not yet been acted upon and the Board, therefore, extends to thirty days from the date on which its decision on the question involved is announced the time within which First Trust Company of Philadelphia, Philadelphia, Pennsylvania, may accomplish its membership and within which The First National Bank of Philadelphia, Philadelphia, Pennsylvania, its holding company affiliate, may obtain a voting permit. In view of the length of time which has elapsed since the applications were approved, the extension is granted with the understanding that compliance with requirements prescribed in these cases will be based upon current appraisals of securities and the latest reports of examination available which are satisfactory to you. Please advise the banks accordingly."

Approved.

Letter dated June 17, 1935, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'Kearny National Bank', Kearny, New Jersey, from \$200,000 to \$40,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale of \$675,000 of preferred stock to the Reconstruction Finance Corporation and others, and that the released capital shall be used to eliminate a corresponding amount of the least desirable assets in the bank, all as set forth in your memorandum of June 10, 1935.

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"In considering the plan under which the reduction in common capital is to be effected, it has been noted that the losses estimated by your examiner in his report of examination as of March 12, 1935, exceed the aggregate of the released capital and the surplus and undivided profits accounts by approximately \$40,000, resulting in a capital impairment of that amount; that securities depreciation unprovided for in the amount of approximately \$62,500, if considered as a loss, will further impair the bank's capital, and that there will also remain unprovided for a large amount of doubtful assets in which further losses appear probable. It was noted also that your examiner severely criticises the active management and directors. It is assumed, however, that these matters are receiving the attention of your office."

Approved.

Telegram to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, authorizing him to issue a limited voting permit to the "Scranton Investment Company", Scranton, Pennsylvania, entitling such organization to vote the stock which it owns or controls in "The Abington National Bank of Clark's Summit", Clarks Summit, Pennsylvania, at any time prior to September 30, 1935, (1) to authorize the issuance by such bank of common and/or preferred stock; (2) to authorize a reduction in common capital stock, change in number of shares of such stock or change in par value of shares of such stock of such bank; (3) to make such amendments to the articles of association and by-laws of such bank as shall be necessary for the purposes stated in (1) and (2) above; and (4) to amend the articles of association of such bank to provide for a board of directors consisting of not less than five and not more than twenty-five shareholders; provided that all action taken shall be in accordance with a plan or plans satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Philadelphia and

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approved by the Comptroller of the Currency.

Approved.

Telegram dated June 17, 1935, approved by four members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, authorizing him to issue a limited voting permit to the "Commercial National Bank in Shreveport", Shreveport, Louisiana, or its nominee, entitling such organization to vote the stock which it owns or controls in the "Continental-American Bank and Trust Company", Shreveport, Louisiana, for the purpose of acting at any time prior to August 1, 1935, upon a proposal to issue \$250,000 preferred stock of such bank and to make such amendments to the articles of incorporation, charter, and/or by-laws of such bank as shall be necessary to effect such change in capitalization, all in accordance with a plan satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Dallas and approved by the appropriate supervisory authorities.

Approved.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him, subject to the conditions prescribed in the telegram, to issue a limited voting permit to the "Peoples Corporation", Seattle, Washington, entitling such organization to vote the stock which it owns or controls in the "Peoples Bank and Trust Company", Seattle, Washington, at any

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time prior to September 30, 1935, (1) to authorize the issuance by such bank of capital stock; (2) to authorize a change in the number of shares of capital stock and a change in the par value of shares of stock of such bank; and (3) to make such amendments to the articles of incorporation, charter and/or by-laws of such bank as shall be necessary for the purposes stated in (1) and (2) above; provided that all actions taken shall be in accordance with a plan or plans satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco and approved by the appropriate supervisory authorities.

Approved.

Telegram dated June 17, 1935, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"The Board's regulation contained in Trans. No. 2269 was intended to prescribe rules for the computation of total deposit liabilities by those banks which, under the law, must base their subscriptions for class A stock of the Federal Deposit Insurance Corporation on total deposit liabilities; and it was understood that all member banks organized prior to July 1, 1935 would compute their subscriptions for class A stock on total deposit liabilities. However, the Board is now advised that Federal Deposit Insurance Corporation feels that a member bank organized subsequent to June 16, 1933 and which applies for class A stock of Federal Deposit Insurance Corporation within twelve months after its organization would subscribe for class A stock on basis of its paid-up capital and surplus under provisions of following exception contained in second sentence commencing in subdivision (e) of section 12B of Federal Reserve Act: ' \* \* \* except that in the case of a member bank organized after the date this section takes effect, the amount of such class A stock applied for by such member bank during the first twelve months after its organization shall equal 5 per centum of its paid-up capital and

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"surplus, and beginning after the expiration of such twelve months' period the amount of such class A stock of such member bank shall be adjusted annually in the same manner as in the case of other member banks.' The Board feels that the determination of what member banks should subscribe for class A stock of Federal Deposit Insurance Corporation on basis of total deposit liabilities and what banks should subscribe for such stock on basis of capital and surplus is a question within the jurisdiction of Federal Deposit Insurance Corporation. Therefore, the Board's regulation does not apply to any bank which under the law should subscribe on the basis of its capital and surplus instead of its total deposit liabilities. Please advise any member bank in your district which might be affected by this advice."

Approved, together with a letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"This refers to the letter and memorandum of June 15, 1935, addressed by the General Counsel of the Federal Deposit Insurance Corporation to the Board's General Counsel, with regard to the basis upon which newly organized banks should subscribe for class A stock in the Federal Deposit Insurance Corporation. In this connection, there is inclosed a copy of a telegram which is being sent to all Federal Reserve Agents, advising that this is a question coming within your jurisdiction and that the Board's regulation covering the computation of total deposit liabilities on which are to be based subscriptions for class A stock of the Federal Deposit Insurance Corporation does not apply to banks which should subscribe for such stock on the basis of their capital and surplus. You will observe that the Board has not undertaken to determine the question raised in the letter and memorandum of your Counsel since, as noted above, it feels that such question is one coming within your jurisdiction."

Letter dated June 17, 1935, approved by four members of the Board, to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of May 28, 1935, regarding a possible violation of Section 23A of the Federal Reserve Act by the 'Peoples City Bank', McKeesport, Pennsylvania, by reason of an additional investment in, and advances secured by,

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"stock of the Columbia Radiator Company, an affiliate of the bank, the total of the bank's advances to, investment in the stock of, and loans dependent on the stock of such affiliate amounting to \$155,700.04 on April 20, 1935, the date of the recent examination, an amount slightly in excess of 10 per cent of the bank's capital and surplus of \$1,500,000.

"You state that the apparent violation of the provisions of Section 23A was called to the attention of the bank, that the bank questioned the manner in which your examiner computed the amount of loans dependent upon stock of the Columbia Radiator Company, and that in reply to the bank you reaffirmed the manner in which the collateral securing such loans had been appraised but also indicated that you would be inclined, should the Board interpose no objection, to let the matter rest until the time of the next examination in view of the fact that the total investment and extension of credit was only slightly in excess of the limits prescribed.

"It has been noted that since the previous examination direct advances to the affiliate have been reduced from \$75,000 to \$50,000, and certain loans secured in whole or in part by stock of the Columbia Radiator Company have been reduced \$9,340, while during the period other loans secured in whole or in part by stock of the radiator company increased \$9,585 and the bank's investment in the stock of the company increased \$1,647, representing additional holdings of 100 shares.

"Whether or not a violation of the provisions of Section 23A exists is a matter of fact to be determined in each case, and, in the event a violation exists, steps should be taken, of course, to effect a correction. In view of the circumstances, however, and the fact that the excess portion, if any, of the concentration is slight, the Board, in accordance with your suggestion, will take no action with respect to the matter at this time.

"It is noted from the report of examination as of April 20, 1935, that since the previous examination the bank has acquired 100 shares of stock of the Columbia Radiator Company, 400 shares of Atchison, Topeka and Santa Fe Railroad Company, and 140 shares of Texas Oil and Land Company. Since the report does not indicate that the stocks were acquired account of debts previously contracted, it will be appreciated if you will advise whether the stocks referred to were acquired in violation of the provisions of Section 9 of the Federal Reserve Act, and, if so, what action the bank proposes to take to effect disposition thereof.

"It is assumed that you will forward advice in due course regarding the action taken by the bank in connection with the



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"elimination of the estimated losses shown in the report of examination as of April 20, 1935."

Approved.

Letter dated June 15, 1935, approved by four members of the Board, to Mr. Paul P. Cret, Philadelphia, Pennsylvania, reading as follows:

"Reference is made to your letter of May 29, 1935, in regard to special engineering services and to the provisions of Article 3 on this subject contained in the agreement made with your firm by the Federal Reserve Board under date of June 5, 1935.

"The Board has decided to exercise the option reserved to it and to require your firm to perform, in addition to all other services and duties required of your firm, all of the designing and engineering services in respect to the matters set forth in the paragraphs designated (a) to (h) inclusive in Article 3.

"It will be appreciated if you will acknowledge receipt of this letter."

Approved.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"At the present time the Board is receiving reports on industrial advances and commitments from the Federal Reserve banks on Forms B-22, B-22a, B-23, Schedule BD-4, letters or schedules covering commitments and monthly lists of outstanding advances and commitments, and in addition is receiving copies of statements furnished the Secretary of the Treasury in accordance with the regulations issued under date of August 15, 1934.

"Such other information as you have been furnishing by letter or otherwise at regular periods in compliance with the Board's requests may be discontinued, effective immediately. The Board will, however, have occasion to request special information from time to time; and in addition it will be appreciated if you will send the Board a letter as occasion arises explaining any unusual changes in your weekly reports on Forms B-22 and B-22a, or informing the Board of any special developments in connection with your bank's industrial loans program, which you feel should

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"be brought to its attention.

"It is requested that the above mentioned list of outstanding advances and commitments be furnished quarterly hereafter, as of the last day of March, June, September and December, instead of monthly as at present, and that it show the business of each borrower."

Approved.

Letter dated June 17, 1935, approved by four members of the Board, to Messrs. Blandy, Mooney & Shipman, New York, New York, reading as follows:

"Your letter of April 17, 1935, addressed to Senator Carter Glass, has been referred to the Federal Reserve Board for reply. You have requested information as to the intention of Congress in enacting section 11(k) of the Federal Reserve Act and you have inquired with special reference to the origin of the phrase 'funds deposited or held in trust by the bank awaiting investment' as it is used in that section.

"Section 11(k) of the Federal Reserve Act was a part of the original Federal Reserve Act, approved December 23, 1913, and as originally enacted that section merely provided as follows:

"Sec. 11. The Federal Reserve Board shall be authorized and empowered: \* \* \*

"(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe."

"However, on September 26, 1918, section 11(k) was amended and reenacted so as to authorize the Federal Reserve Board to grant additional trust powers to national banks and so as to prescribe appropriate safeguards for national banks exercising trust powers and the section was further amended on June 26, 1930. For your information in this connection, there is inclosed herewith a copy of the Board's latest compilation of the Federal Reserve Act, and all amendments thereto, on pages 32 to 34, inclusive, of which you will find this section set out in its entirety. There is inclosed also a copy of the Board's Regulation F, Series of 1930, covering the exercise of trust powers by national banks.

"It appears that the principal purpose of Congress in enacting section 11(k) was to enable national banks to compete on a basis of substantial equality with State banks and trust companies

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"exercising trust powers. That Congress had this purpose in mind is recognized by the United States Supreme Court in its decision in the case of First National Bank v. Union Trust Company, 244 U. S. 416. In that case the court said as follows:

"\* \* \* plainly the particular functions enumerated in the statute were conferred upon national banks because of the fact that they were enjoyed as the result of state legislation by state corporations, rivals in a greater or less degree of national banks.'

Continuing the court also said that:

"\* \* \* even although a business be of such a character that it is not inherently considered susceptible of being included by Congress in the powers conferred on national banks, that rule would cease to apply if by state law state banking corporations, trust companies, or others which by reason of their business are rivals or quasi-rivals of national banks are permitted to carry on such business. This must be since the State may not by legislation create a condition as to a particular business which would bring about actual or potential competition with the business of national banks and at the same time deny the power of Congress to meet such created condition by legislation appropriate to avoid the injury which otherwise would be suffered by the national agency. \* \* \* And these considerations clearly were in the legislative mind when it enacted the statute in question. This result would seem to be plain when it is observed (a) that the statute authorizes the exertion of the particular functions by national banks when not in contravention of the state law, that is, where the right to perform them is expressly given by the state law or what is equivalent is deducible from the state law because that law has given the functions to state banks or corporations whose business in a greater or less degree rivals that of national banks, thus engendering from the state law itself an implication of authority in Congress to do as to national banks that which the state law has done as to other corporations; and (b) that the statute subjects the right to exert the particular functions which it confers on national banks to the administrative authority of the Reserve Board, giving besides to that Board power to adopt rules regulating the exercise of the functions conferred, thus affording the means of coordinating the functions when permitted to be discharged by national banks with the reasonable and non-discriminating provisions of state law regulating their exercise as to state corporations, -- the whole to the end that harmony and the concordant exercise of the national and state power might result.'

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"With respect to your inquiry concerning the origin of the phrase 'funds deposited or held in trust by the bank awaiting investment', you are advised that this phrase first became a part of section 11(k) as a result of the amendment of September 26, 1918, and you will note that it is contained in the law as it exists today. The Board has not had occasion to determine whether there were any explanatory comments in the debates which took place in Congress or in the committee reports with regard to the meaning of this phrase as it was contained in the amendment of September 26, 1918, but you may be able to examine such debates and reports at some library in your city. Your letter does not furnish any information concerning the problem with which you are confronted, but, if you have under consideration a question upon which you desire information regarding the applicability of this phrase, the Board will be glad to advise you upon receipt of full information as to the facts involved."

Approved.

Letter to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to Mr. Paulger's letter of May 15, 1935, to you, and your letter of June 4, 1935, in reply, relative to the Clayton Act status of Messrs. C. P. Bacon, H. E. Bacon, W. W. Gray, J. L. Knauss, C. F. Rose, T. D. Scales, F. J. Bernhardt, A. C. Froelich, and W. F. Huthsteiner, who are reported to be serving as directors and/or officers of The Citizens National Bank of Evansville, Evansville, Indiana, and other banks.

"It is noted from your letter of June 4, 1935, that the question as to the Clayton Act status of these individuals has been before you for some time; that you have received applications from certain of them; that it has seemed desirable to defer action on these applications for various reasons, among them being a determination of the question of the issuance of preferred stock by The Citizens National Bank of Evansville, the steps to be taken in connection with the endorsement on the stock certificates of The Citizens National Bank of Evansville evidencing the stockholders' beneficial interest in the affiliated Citizens Trust and Savings Bank of Evansville, and the fact that the Clayton Act status of these individuals will be materially affected by the proposed consolidation of the national bank and its affiliated State bank. It is noted that for these reasons you propose deferring action on the Clayton Act

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"applications of the individuals involved pending the outcome of the proposed consolidation of these two institutions if such action meets with the approval of the Board.

"The Board has no objection to the deferment proposed; however, if there is any undue delay in the consummation of the proposed consolidation it is suggested that you keep the Board advised."

Approved.

Letters dated June 17, 1935, approved by four members of the Board, to applicants for Clayton Act permits advising respectively of the issuance of permits by the Board as follows:

Mr. Emanuel Blosser, to serve at the same time as a director and officer of the Harrisonburg Loan & Thrift Corporation, Harrisonburg, Virginia, and as a director of The National Bank of Harrisonburg, Harrisonburg, Virginia, for the period ending January 14, 1936.

Mr. Laird L. Conrad, to serve at the same time as a director of The Rockingham National Bank of Harrisonburg, Harrisonburg, Virginia, and as a director and officer of the Harrisonburg Loan & Thrift Corporation, Harrisonburg, Virginia, for the period ending January 14, 1936.

Mr. W. M. Menefee, to serve at the same time as a director and officer of The Rockingham National Bank of Harrisonburg, Harrisonburg, Virginia, and as a director of the Harrisonburg Loan & Thrift Corporation, Harrisonburg, Virginia, for the period ending January 14, 1936.

Approved.

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

| <u>Applications for ADDITIONAL Stock:</u>                                   | <u>Shares</u> |
|---|---------------|
| <u>District No. 2.</u>  |               |
| The First National Bank of Plainfield,<br>Plainfield, New Jersey            | 130           |
| Highland-Quassaick National Bank and Trust<br>Company of Newburgh, New York | 420           |

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| <u>Applications for ADDITIONAL Stock: (Continued)</u>                                  |              | <u>Shares</u> |
|--|--------------|---------------|
| <u>District No. 2. (Continued)</u>   |              |               |
| Valley Stream National Bank and Trust Company,<br>Valley Stream, New York              | 186          |               |
| The First National Bank of Cedar Grove,<br>Cedar Grove, New Jersey                     | 6            |               |
| The First National Bank of Eatontown,<br>Eatontown, New Jersey                         | 6            |               |
| The First National Bank of Farmingdale,<br>Farmingdale, New Jersey                     | 3            |               |
| The Cornwall National Bank,<br>Cornwall, New York                                      | 34           |               |
| The Mariner Harbor National Bank,<br>Mariners Harbor, New York                         | 9            |               |
| The First National Bank of Roosevelt,<br>Roosevelt, New York                           | 42           |               |
| The Peoples National Bank and Trust Company of<br>White Plains, White Plains, New York | 1            |               |
| Seaside Bank,<br>Westhampton Beach, New York   | <u>2</u>     | 839           |
| <u>District No. 6.</u>   |              |               |
| The First National Bank of Jefferson Parish at<br>Gretna, Gretna, Louisiana            | 3            | 3             |
| <u>District No. 8.</u>   |              |               |
| Mechanics Bank and Trust Company,<br>Moberly, Missouri                                 | 1            |               |
| The First National Bank of Raymond,<br>Raymond, Illinois                               | <u>66</u>    | 67            |
| <u>District No. 9.</u>   |              |               |
| The First National Bank of Eagle River,<br>Eagle River, Wisconsin                      | 3            | 3             |
| <u>District No. 12.</u>  |              |               |
| The Puget Sound National Bank of Tacoma,<br>Tacoma, Washington                         | 120          | 120           |
|  | <u>Total</u> | <u>1,032</u>  |
| <u>Applications for SURRENDER of Stock:</u>  |              |               |
| <u>District No. 1.</u>   |              |               |
| The First National Bank of Rockland,<br>Rockland, Maine                                | 4            |               |
| The Peoples National Bank of Marlborough,<br>Marlborough, Massachusetts                | 2            |               |

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| <u>Applications for SURRENDER of Stock: (Continued)</u>                        | <u>Shares</u> |           |
|--|---------------|-----------|
| <u>District No. 1. (Continued)</u>   |               |           |
| First National Bank of Webster,<br>Webster, Massachusetts                      | <u>6</u>      | 12        |
| <u>District No. 5.</u>   |               |           |
| The Seaboard Citizens National Bank of Norfolk,<br>Norfolk, Virginia           | 30            | 30        |
| <u>District No. 8.</u>   |               |           |
| The First-Hardin National Bank of Elizabethtown,<br>Elizabethtown, Kentucky    | 21            |           |
| The First National Bank of Carrollton,<br>Carrollton, Missouri                 | 31            |           |
| Lafayette National Bank and Trust Company of<br>Luxemburg, Luxemburg, Missouri | 2             |           |
| The Staunton National Bank,<br>Staunton, Illinois                              | <u>60</u>     | 114       |
| <u>District No. 12.</u>  |               |           |
| The University National Bank of Seattle,<br>Seattle, Washington                | <u>60</u>     | <u>60</u> |
|  | Total         | 216       |

Approved.

Thereupon the meeting adjourned.

W. Steen Monie  
Secretary.

Approved:

W. Steen Monie  
Governor.