

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Friday, July 5, 1935, at 11:00 a. m.

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

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

The Committee acted upon the following matters:

Letter dated July 2, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated July 3, 1935, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, and July 5, 1935, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, and Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, 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.

Memorandum dated June 28, 1935, from Mr. Wyatt, General Counsel, recommending that, effective immediately, Mrs. Nadine L. Gallagher, a clerk in the Division of Examinations, be transferred to the legal division as a stenographer, with no change in her present salary rate of \$1,620 per annum.

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve

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Bank of New York, reading as follows:

"Reference is made to your letter of June 26, 1935, regarding the noncompliance by 'The Citizens Bank of White Plains, N. Y.', White Plains, New York, with membership condition numbered 19 which reads as follows:

'Prior to admission to membership such bank shall, without impairing or decreasing its present capital of \$400,000 and surplus of \$400,000, reduce the carrying value of its investment in banking house from \$442,500 to \$400,000 and its investment in furniture and fixtures from \$37,000 to \$30,000; and such bank shall charge off annually as depreciation not less than 2 per cent of the carrying value of its banking house, and not less than 10 per cent of the carrying value of its furniture and fixtures, such annual depreciation to be based upon the carrying value of the property after giving effect to the charge-offs required in this condition.'

"The bank was admitted to membership in the System on April 18, 1933, at which time in accordance with the provisions of the above recited condition the carrying value of its banking house was reduced from \$442,500 to \$400,000 and its furniture and fixtures from \$37,000 to \$30,000. It has been noted, however, that no provision for annual depreciation charges on banking house and on furniture and fixtures for the calendar years 1933 and 1934 has been made as required by the condition, and you have now recommended, in view of the fact that the bank's earnings have been insufficient to provide for such amortization, that the institution be not required to make charge-offs on such assets for those years and for the year 1935 but that compliance with the terms of the condition be required for the calendar year 1936 and for each succeeding year.

"The report of examination of the bank as of February 28, 1935, indicates that bank premises were acquired at a cost of \$442,771.31, that the present building was constructed in 1930, that bank premises have an assessed valuation of \$385,000, and that the examiner feels the carrying value of the asset, as well as of furniture and fixtures, appears high. In view of all the circumstances and your recommendation, the Board will take no action by reason of the failure of the Citizens Bank to comply with the provisions of membership condition numbered 19 for the calendar years 1933 and 1934 but is unwilling at this time to waive in advance the requirements of the condition for the current calendar year, and it is requested that you advise the bank accordingly.

"The report of examination previously referred to indicates a lax procedure by the management in following loans and in connection with which the examiner stated:

'.....Unless there is aggressive and intelligent action on the part of the management to correct the element of danger in the

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"administration of the loan account, the bank will eventually be in a very unsatisfactory condition.'

It is assumed that this situation has been discussed with the management of the bank and it will be appreciated if you will advise what improvement, if any, has been made in this respect."

Approved.

Letter to "The First National Bank of Calumet", Calumet, Michigan, reading as follows:

"This refers to the resolution adopted on August 31, 1934, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise trust powers which have been granted to it by the Federal Reserve Board.

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

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

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The City National Bank and Trust Company of Battle Creek', Battle Creek, Michigan, from \$600,000 to \$200,000, pursuant to a plan which provides that the bank's capital shall be increased by \$350,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital, together with

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"approximately \$250,200 from the institution's surplus and undivided profits accounts, shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of June 22, 1935."

Approved.

Telegram to Mr. Fletcher, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, authorizing him to issue a limited voting permit to the "Butler Savings and Trust Company", Butler, Pennsylvania, entitling such organization at any time prior to October 1, 1935, to vote the stock which it owns or controls in "The South Side National Bank of Butler", Butler, Pennsylvania, (1) to authorize the assumption of the liabilities of The South Side National Bank of Butler by the Butler Savings and Trust Company and the sale of certain assets of The South Side National Bank of Butler to the Butler Savings and Trust Company; (2) to place The South Side National Bank of Butler in voluntary liquidation; and (3) to take all action necessary to effect such assumption of liabilities, sale of assets and liquidation; provided that all action taken shall be in accordance with a plan approved by the appropriate supervisory authorities and satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland.

Approved.

Memorandum dated June 24, 1935, from the Division of Examinations, suggesting, for the reasons set forth in the memorandum, that final consideration of the application of "The Meadow River Lumber Company", Rainelle, West Virginia, for permission to vote the stock which it owns or controls of "The Bank of Rainelle", Rainelle, West Virginia,

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be deferred pending the outcome of the Banking Bill of 1935 in Congress. The suggestion was approved by four members of the Board on July 2, 1935.

Approved.

Memorandum dated May 24, 1935, from Mr. Owens, Assistant Counsel, reviewing the replies received to the Board's letter of April 12, 1935 (X-9176), to the chairmen of all Federal reserve banks, with regard to the retention by member banks of savings passbooks. The memorandum set forth the conclusion that it seems advisable to modify the Board's existing ruling on this matter to some extent so as to permit member banks to retain savings passbooks in certain exceptional cases, but that it is believed that any such modification should be deferred until the enactment of the Banking Act of 1935 and should be made in connection with the issuance of a revised edition of Regulation Q.

Action on the modification of the existing ruling was deferred, with the understanding that if the Banking Bill is not approved at this session of Congress, consideration will be given to a modification of the ruling under the provisions of existing law.

Letter to Miss Priscilla Lehmann, Fairfield, California, reading as follows:

"This refers to your inquiry of June 19, 1935, concerning the correctness of a charge of fifty cents by the Bommer County National Bank, Sandpoint, Idaho, for cashing a warrant in the amount of \$140. It is understood that you desire to be advised whether such charge is authorized by law.

"You state that you are a California school teacher and, accordingly, it is assumed that the warrant in question was issued by the State of California. On the basis of this assumption, it appears that there is no provision of law which would prevent the bank from making the charge in question.

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"Although national banks and other member banks of the Federal Reserve System are prohibited by the provisions of section 13 of the Federal Reserve Act from imposing exchange or collection charges in excess of ten cents for each \$100 or fraction thereof on checks and drafts presented to them, this limitation does not apply to warrants, notes, drafts, and bills drawn on or payable by persons or organizations other than banks. The words 'checks and drafts' used in section 13 of the Federal Reserve Act refer to checks and drafts drawn upon banks and do not include warrants issued by a State and other non-cash items.

"If you have any further question in regard to this matter it will be appreciated if you will communicate with the Federal Reserve Agent at the Federal Reserve Bank of San Francisco."

Approved.

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

"This is in reply to your letter of June 18 in which you state that a certain customer of a member firm of your Exchange requests permission of the Federal Reserve Board to purchase a certain number of shares of a registered security, equal to a number of shares which he had previously sold.

"If, by reason of the purchase of such shares, a larger extension of credit would be made by the member firm than is allowed by Regulation T, such purchase may not be made. The regulation does not provide for any exceptions that would be applicable to a case of the kind you describe."

Approved.

Letter to Governor Newton of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to Mr. Conniff's letter of June 12 in regard to the determination of the cost of operation of the Havana, Cuba, Agency, which since June 1, 1935 has been operated for the account of the Federal Reserve System as a whole and each of the Federal Reserve banks.

"In determining the net profit, if any, in operating the Agency, from the total of commissions received on account of transfers sold payable in the United States, transfers sold payable in Cuba, and denominational exchanges and any other earnings of the Agency there should be deducted current operating expenses including the cost of Federal Reserve currency

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"and the cost of redeeming such currency, the cost of furniture and equipment purchased and any losses sustained by the Agency for which the Federal Reserve bank is not indemnified under its insurance contracts. Operating expenses other than those relating to Federal Reserve notes should be determined in accordance with the Board's 'Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements'.

"The Agency should be charged with the cost of new currency shipped to it including the cost of shipment to Havana from the Bureau of Engraving and Printing, regardless of the point from which the currency is shipped. The Agency should also be charged with the actual cost of returning currency from the Agency to the United States.

"In case fit currency is shipped to the Agency, the Agency should be charged with the actual cost of shipment plus a proportion of the cost of the currency, such proportion to be determined, in the case of each shipment, by your bank on the basis of the actual condition of the currency. The Board believes this method is preferable to an arbitrary charge of 75 percent of the cost of the currency, as suggested in Mr. Comiff's letter."

Approved.

Letter to Mr. Ralph C. Gifford, President of the Kentucky

Title Trust Company, Louisville, Kentucky, reading as follows:

"Consideration has been given to your letter of May 25, 1935, submitting additional information and requesting a reconsideration of the ruling contained in the Board's letter of June 6, 1934, to the effect that Kentucky Title Trust Company was engaged principally in the issue and sale of securities within the meaning of section 20 of the Banking Act of 1933. Specifically, you ask that permission be granted to your bank to issue Debenture Collateral Trust Bonds in the future not exceeding \$6,000,000 in amount outstanding at any one time, or that the Board rule what maximum amount of such bonds may be outstanding and not constitute the principal business of your bank within the meaning of section 20 of the Banking Act of 1933.

"As you know, the ruling contained in the Board's letter of June 6, 1934 was reiterated in its telegram of June 13, 1934, and that telegram also stated that the Board was of the opinion that your bank was engaged primarily in the business of selling or negotiating securities within the meaning of section 32 of the Banking Act of 1933.

"Your request for a reconsideration is based upon the contention that there has been a material change in the proportionate relation which the mortgage bond department bears to the other

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"departments of your bank, and, in this connection, you have submitted figures showing, among other things, an increase in deposits during the past year from \$3,161,512 to \$3,481,915, a reduction in the amount of outstanding bonds from \$8,729,000 to \$5,729,300, and figures showing the net income of the three departments for the full year, based on the first three months of this year, to be:

Banking department	- \$52,084
Mortgage department	- 26,052
Trust department	- 8,308

"However, these figures as to the income from the three departments do not include any income from the sale of debentures, since your bank discontinued such sales in June 1934; and it is not possible to predict whether or not the resumption of this activity to the extent mentioned in your letter will result in making the mortgage department the principal department of your bank. However, it appears that the amount which you name is not greatly less than that which was outstanding at the time of the Board's previous ruling and therefore there would seem to be no reason for assuming that the resulting circumstances would be such as to lead it to a different conclusion. Moreover, the Board cannot undertake to predict the extent of such activity which would result in making section 20 applicable since it of course cannot predict all the other factors which would enter into a determination of that question.

"The same considerations would apply with respect to the applicability of section 32 of the Banking Act of 1933; and, since it is understood that all the directors of the trust company are directors of the First National Bank of Louisville, it appears that the resumption of this activity might necessitate the termination of all these interlocking relationships, because, although the Board is authorized to issue permits covering relationships otherwise prohibited by the provisions of section 32, it would not be inclined to issue permits covering the interlocking relationships involved in this case if one of the primary activities of your bank were to be the sale of such debentures.

"Accordingly, the Board does not believe that it may grant permission to your bank to issue debentures in the future not exceeding \$6,000,000 in amount outstanding at any one time or to prescribe any other fixed limitation of that nature beyond which the trust company would be deemed to be engaged principally in the issue and sale of securities within the meaning of section 20 of the Banking Act of 1933 or engaged primarily in selling or negotiating securities within the meaning of section 32 of the Banking Act of 1933."

Approved.

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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 16, 1935, addressed to Mr. Paulger, inclosing a revised draft of the proposed Handbook for trust examiners which has been prepared in your office.

"The Board's Division of Examinations and Counsel's office have reviewed the revised draft and the inclosed memorandum containing their combined suggestions is being forwarded for such assistance as it may be to you. It is felt that the Handbook, when finally completed, will serve a very useful purpose in developing adequate examinations of trust departments of member banks, and the efforts and time which the members of your office have put into its preparation are greatly appreciated. The Board's staff, of course, will be glad to be of any further possible assistance in perfecting the Handbook, and it will be appreciated if you will furnish the Board with several copies of the Handbook in its final form."

Approved.

Memorandum dated July 3, 1935, from Mr. Morrill, Secretary, stating that on July 1, 1935, Miss Josephine Joan Burns, investigator for the Senate Committee Investigating the Munitions Industry, presented a letter from Senator Nye, Chairman of the Committee, stating that Miss Burns had been assigned to a study of files dealing with both private and public financing of loans to the Allies from 1915 to 1918, inclusive; that he had inquired of Miss Burns as to the files of the Federal Reserve Board which she desired to examine; and that she had requested that she be given an opportunity to see the files and official minutes of the Board with regard to (1) a telegram sent by the Board on October 23, 1916, concerning the purchase by Federal Reserve banks of acceptances issued under a credit to French industrial concerns, (2) a statement issued by the Board on November 28,

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1916, concerning the purchase by member banks of foreign securities, (3) a statement issued on March 8, 1917, in which reference is made to the November 28 statement, and (4) negotiations of the Federal Reserve Bank of New York with the Bank of England and the Bank of France with regard to their appointment as agents for the New York bank. The memorandum submitted to the Board for determination the question as to the nature of the reply to be made to the request of Miss Burns.

It was agreed that there was no objection to granting the request, and the Secretary was authorized to afford Miss Burns an opportunity to examine the minutes and files referred to.

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

"The Board has given further consideration to the application of Mr. Arthur C. Dorrance, Camden, New Jersey, for permission under the provisions of the Clayton Act to serve as manager of Girard Trust Company, as director of The Philadelphia National Bank, both of Philadelphia, Pennsylvania, and as director of Guaranty Trust Company of New York, New York, New York, which application was not approved by the Board as indicated in its letter of February 25, 1935, to you.

"The information submitted with your letters of May 13 and 15, 1935, indicates that there are certain substantial differences in the character of some of the principal activities of the two Philadelphia institutions involved.

"However, as the Board stated in its letter of April 23, 1935, to you, relative to this case, it appears that it was the purpose of Section 8 of the Clayton Act to prevent interlocking relationships between institutions engaged in the same class or classes of business and so located as to be in a position to compete substantially. The information submitted with your letters of May 13 and 15, 1935, shows clearly that The Philadelphia National Bank and Girard Trust Company transact business of the same kinds, even though the relative importance of various types of business is not the same in the two institutions. It is the Board's view, therefore, that these two institutions are in competition within the intendment of the Clayton Act. As previously

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"indicated in the Board's letter of April 23, 1935, this view is not predicated upon the relative volume of the various types of business transacted by the banks but rather upon the fact that both of them appear to transact business of the same kinds and that therefore they are in a competitive position with respect to such types of business. In this connection, the Board fails to find any distinction between the competitive status of The Philadelphia National Bank and Girard Trust Company involved in the application of Mr. Dorrance and the competitive status of Central-Perm National Bank of Philadelphia and Girard Trust Company involved in the applications of Messrs. James E. Gowen, C. Jared Ingersoll and A. A. Jackson other than the fact that the relative volume of the various types of business transacted by the two national banks is different; and this difference is not of sufficient degree in the Board's view to be a determining factor.

"Accordingly, the Board does not believe that it may issue a permit in this case consistently with what it believes to be the intendment of the Clayton Act and consistently with the policy adopted by the Board in connection with cases of this kind.

"As stated in the Board's letter of February 25, 1935, to you, Mr. Dorrance, if he so desires, may amend his application to exclude therefrom the Girard Trust Company of Philadelphia and upon receipt of such amendment, accompanied by appropriate evidence of the severance of his connection with that institution, the Board will give consideration to the amended application. If, however, he elects to sever his connection with The Philadelphia National Bank, the Clayton Act will not apply to his relationship to the two trust companies and further consideration of the matter will be unnecessary.

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

Approved.

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. 9.</u>		
The Sherburn National Bank, Sherburn, Minnesota	33	
The National Bank of Jamestown, Jamestown, North Dakota	<u>6</u>	39

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Applications for ADDITIONAL Stock: (Continued)District No. 12.The Washington National Bank of Vancouver,
Vancouver, WashingtonShares

9	9
Total	48

Applications for SURRENDER of Stock:District No. 6.Florida Bank & Trust Co. of West Palm Beach,
West Palm Beach, Florida

90	90
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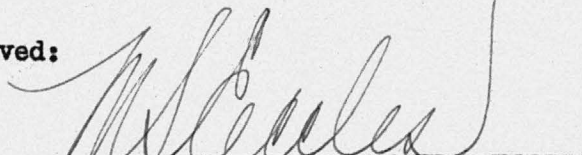
District No. 8.The First National Bank of Winslow,
Winslow, Indiana

51	51
Total	141

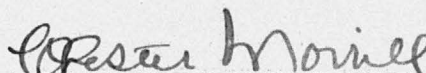
Approved.

Thereupon the meeting adjourned.

Approved:



Governor.



Secretary.