

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Friday, July 26, 1935, at 11:30 a. m.

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

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

The Committee acted upon the following matters:

Letter dated July 25, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegram dated July 26 from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, both 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 dated July 25, 1935, approved by four members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of July 15, 1935, transmitting a certified copy of a resolution adopted on July 8, 1935, by the board of directors of 'Guilford Trust Company', Guilford, Maine, authorizing the withdrawal of the bank from membership in the Federal Reserve System.

"You have advised that the notice of withdrawal was received in acceptable form in your office on July 11, 1935. At the expiration of six months from that date, therefore, upon the surrender of the Federal reserve bank stock held by the Guilford Trust Company, the Federal Reserve Bank of Boston is authorized to make appropriate refund thereon.

7/26/35

-2-

"It has been noted that the reason advanced by the bank for desiring to withdraw from membership in the System is 'the proposed and anticipated changes in the Banking Law, both in regard to the operation and control of the Federal Reserve System and the requirements, present and anticipated, of the Federal Deposit Insurance Corporation.'

"While the bank's application for withdrawal has been approved, the bank, as you know, is not compelled to proceed with the withdrawal and it is suggested, if you have not already done so, that you acquaint the bank with this fact. It is possible that before the expiration of the six months period above referred to the Banking Bill of 1935 will be passed, and it might be well to suggest to the bank that it review the situation and base its decision with regard to withdrawal on the circumstances then existing."

Approved.

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

"Receipt is acknowledged of Mr. Evans' letter of June 11, 1935, requesting advice as to whether your office should insist that the Union State Bank, East Bernard, Texas, dispose of the 127 shares of stock of Wilson & Company accepted by the bank in March 1935, in connection with a reorganization of Wilson & Company, in exchange for 45 shares of stock of that company carried at approximately \$900 which the bank had acquired some time prior to its admission to membership in January 1934.

"In view of the manner in which the stock was acquired, it does not appear that its acquisition constitutes a violation of section 9 of the Federal Reserve Act or any of the conditions of membership applicable to the bank. You have also noted that the bank has been advised of the Board's views concerning the holding of stocks by member banks, and the bank has indicated that it will not hold the stock referred to indefinitely. In the circumstances, the Board feels that you would not be justified in insisting that the Union State Bank dispose of the shares in question at this time."

Approved.

Letter dated July 25, 1935, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

7/26/35

-3-

"In accordance with Acting Comptroller of the Currency Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'Merchants National Bank in Plattsburg', Plattsburg, New York, from \$200,000 to \$100,000, pursuant to a plan which provides that the released capital, together with the bank's surplus and undivided profits accounts, shall be used in eliminating a corresponding amount of substandard assets, all as set forth in Mr. Awalt's memorandum of July 15, 1935.

"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 14, 1935, exceed the aggregate of the released capital and the surplus and undivided profits accounts by approximately \$398,300, resulting in a capital impairment of that amount; and that securities depreciation unprovided for in the amount of approximately \$21,000, if considered as a loss, will further impair the bank's capital. It was also noted that your examiner severely criticizes the active management and directors. It is assumed, however, that these matters are receiving the attention of your office."

Approved.

Letter dated July 25, 1935, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to Mr. Swanson's letter of June 21, 1935, relating to the application of Marshall-McCartney Company, Oakes, North Dakota, for a voting permit entitling it to vote the stock which it owns or controls of The First National Bank of Oakes, Oakes, North Dakota, and submitting information with reference to the possible termination of the holding company affiliate relationship.

"The Board understands that The First National Bank of Oakes has outstanding 500 shares of common stock and 500 shares of preferred stock; that Marshall-McCartney Company owns or controls 450 shares of the common stock; that all of the preferred stock is owned by the Reconstruction Finance Corporation; and that at the preceding election of directors all of the shares of the preferred stock and 480 shares of the common stock, including the 450 shares owned or controlled by Marshall-McCartney Company, were voted.



7/26/35

-4-

"On the basis of these facts, the Board is of the opinion that Marshall-McCartney Company is not now a holding company affiliate of The First National Bank of Oakes and, accordingly, it is assumed that no further consideration need be given to its application for a voting permit. In the absence of any further facts which you believe should be considered by the Board, you may advise Marshall-McCartney Company and The First National Bank of Oakes in accordance with this letter."

Approved.

Letter to the Comptroller of the Currency, reading as follows:

"Under date of July 17 the Federal Reserve Bank of San Francisco advised the Federal Reserve Board that the demand for Federal Reserve notes in the \$10 denomination has been exceptionally heavy in recent weeks, partly because of the retirement of National bank notes of that denomination, and requested the Board to arrange for the printing of approximately \$15,000,000 of Federal Reserve notes in the \$10 denomination during the fiscal year 1936.

"It is respectfully requested, therefore, that you place an order with the Bureau of Engraving and Printing for the printing during the fiscal year ending June 30, 1936 of 125,000 sheets of Federal Reserve notes of the Federal Reserve Bank of San Francisco in the \$10 denomination."

Approved, together with a letter to  
Honorable A. W. Hall, Director of the  
Bureau of Engraving and Printing, reading  
as follows:

"Referring to the Board's letter of June 22, advising you that it had placed an order for the printing of 10,515,800 sheets of Federal Reserve notes during the fiscal year ending June 30, 1936, the Board has this day requested the Comptroller of the Currency to place an additional order with your bureau for the printing during the fiscal year ending June 30, 1936 of 125,000 sheets of Federal Reserve notes of the Federal Reserve Bank of San Francisco in the \$10 denomination."

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

"Receipt is acknowledged of your letter of July 12, 1935, with further reference to the proposed Handbook for trust

7/26/35

-5-

"examiners which has been prepared in your office. It has been noted that you have incorporated in the Handbook substantially all of the suggestions of the Board's Division of Examinations and Counsel's Office which were transmitted to you with my letter of July 5, 1935, and that you have requested any further suggestions or comments we may care to make in connection with the matters which are discussed in paragraphs numbered (1), (2), (3), and (5) of your letter.

"With respect to paragraph numbered (1) of your letter, you are advised that there does not seem to be any objection to the addition of the sentence quoted therein at the end of paragraph numbered (5) on page 10 of the Handbook.

"In paragraph numbered (2) of your letter, after discussing generally the propriety of a State bank depositing trust funds in its savings department, you have suggested in the latter part of the paragraph that, 'assuming national banks to be subject to reasonable State law in the administration of trusts', perhaps too much emphasis should not be placed upon the authority and power of the Board's Regulation F to take precedence in a State, particularly Minnesota, where it appears that deposits of trust funds in the savings department of a State bank are illegal. In this connection, you have quoted from the opinion of the Supreme Court of Minnesota in the case of Henton v. Renville State Bank (261 N. W. 8), rendered on May 31, 1935, holding that the deposit of trust funds by a State bank in its commercial department 'was wrongful and unlawful'.

"State banks exercising trust powers and trust companies, of course, are bound by the State laws, regulations and court decisions relating to the administration of trusts; and, while section 11(k) of the Federal Reserve Act makes the exercise of trust powers by national banks dependent in several particulars upon the provisions of State laws, a State cannot, by statute, regulation or court decision, require such national bank to submit to requirements which are inconsistent or in conflict with the provisions of section 11(k) of the Federal Reserve Act. If such an inconsistency or conflict exists, the State requirement must yield to the Federal Reserve Act (See In re Turners Estate, (Pa.), 120 Atl. 701; State of Missouri v. Duncan, 265 U. S. 17).

"As you know, section 11(k) provides that a national bank shall not use trust funds 'in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board'. Thus, subject to the condition mentioned, Congress has permitted a national bank to use trust funds in the conduct of its business; and the Board in its Regulation F has construed this



7/26/35

-6-

"provision as authorizing the bank to deposit trust funds in its savings department on condition that it deposit in its trust department securities of the kinds described in that Regulation. In the circumstances, any attempt by a State, either by statute or a judicial decision, to interfere with the right of a national bank to exercise this prerogative would be inconsistent with the Federal Reserve Act and, therefore, not binding upon such national bank. It was with this situation in mind that the suggestion was made that the comments in the Handbook on page 15, with respect to the matter of depositing trust funds in a bank's savings account, should be modified. However, it is not contemplated that the rights of national banks in this respect will be overemphasized in the Handbook, but merely that such modification will be made as will avoid any misunderstanding as to such rights.

"In connection with the paragraph numbered 3 of your letter, you are advised that the reference on page 5 $\frac{1}{2}$  of our memorandum to 'line 11 of the first paragraph on page 19' was inadvertently made to the first draft of the Handbook which you submitted to the Board. The subject matter constituting the basis for our suggestion may be found in the 14th line of the first paragraph on page 22 of the revision of the Handbook submitted with your letter to Mr. Paulger of May 16, 1935.

"In paragraph numbered 5 of your letter, you have stated that it is your impression that there are some States in which the courts have looked with disfavor upon the collective investment of small amounts of trust funds where the cash balances to the credit of the trust estates are too small to be invested separately to advantage and you have suggested that the inclusion in the Handbook of the comments excepting investments of this kind from criticism by the examiner 'might lead to trouble'. This exception was suggested not with the idea that it would vest any additional authority in a State member bank but was made merely to emphasize the fact that the examiner should not criticize a State member bank subject to condition of membership numbered 17 which has invested trust funds in this manner without being 'specifically' authorized by the State law or trust instrument to do so. However, it is not believed that the exception is essential and, in view of your feeling in the matter, it need not necessarily be adopted; but, if not adopted, it is believed that the word 'specifically' appearing in the third line of paragraph numbered 15 on page 19 should be deleted."

Approved.

Letter dated July 24, 1935, approved by five members of the

7/26/35

-7-

Board, to Mr. J. W. Adams, Division Manager, American Telephone and Telegraph Company, Washington, D. C., reading as follows:

"Your service No. 026265, covered by the contract between the Federal Reserve Board and the American Telephone and Telegraph Company, calls for duplex Morse telegraph service between the Federal Reserve Banks of New York and Chicago daily between the hours of 8:00 a. m. and 8:00 p. m., Eastern Standard Time.

"Because of the decrease in business between Washington and Chicago and between New York and Chicago, it is believed that our requirements can be met by a single wire instead of the present duplex wire between the latter two points. It will be appreciated, therefore, if you will arrange to change the New York-Chicago circuit from a duplex to a single wire service between the hours of 8:00 a. m. and 8:00 p. m., Eastern Standard Time, retaining the facilities at the New York office which permit the connection at that point of the Chicago and Washington offices. It is understood from your Mr. DeBarbieri that this change can be made at once and it is requested that you advise the date on which it will become effective in order that the Federal reserve banks concerned may be informed. Mr. DeBarbieri has stated that the single wire service will result in an annual saving to the Board in leased wire charges of approximately \$4,800.

"It will also be appreciated if you will have revised appendix A sheets, covering the new circuit, executed by an authorized officer of your company and forwarded to the Board for signature."

Approved.

Telegram dated July 25, 1935, approved by two members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Relet July 19 regarding possible violations section 22(g) Federal Reserve Act involving C. W. Furr, President of First State Bank, Kirkland, Texas. Board has today reported matter to Attorney General of United States and has also called his attention to possibility of a violation of section 5209 of Revised Statutes. You are requested to make similar report to local United States Attorney."

Approved.

7/26/35

-8-

Letter to an applicant for a Clayton Act permit advising of the issuance of a permit by the Board as follows:

Mr. Otto F. Reich, to serve at the same time as a director of The First National Bank in Dolton, Dolton, Illinois, and as a director and officer of The First Trust and Savings Bank, Riverdale, Illinois, for the period ending January 14, 1936.

Approved.

There was then presented the following application for a change in stock of a Federal reserve bank:

<u>Application for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 11.</u>		
The Amarillo National Bank,		
Amarillo, Texas	180	180

Approved.

Thereupon the meeting adjourned.

Chester Morrill  
Secretary.

Approved:

McCauley  
Governor.