

A meeting of the Federal Reserve Board was held in Washington on Wednesday, August 7, 1935, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Memorandum dated August 5, 1935, from Mr. Wyatt, General Counsel, recommending that Miss Margaret Wisner, a secretary in counsel's office, be granted a leave of absence with pay on account of illness for a period of thirty-seven days in addition to the period of thirty days annually granted by the Board in case of illness, in order to cover the entire period of her illness from May 27 to July 31, 1935, inclusive.

Approved.

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

"Reference is made to the report of examination of the 'Potter Title and Trust Company', Pittsburgh, Pennsylvania, as of March 30, 1935, and to the supplementary information submitted in connection therewith, particularly your letters of June 5, June 7, and July 23, 1935.

"In your letters of June 5 and June 7 you state that while the report of examination discloses a most unsatisfactory condition, the capital structure appears to be sufficient to protect the deposits, the bank is in a reasonably liquid condition and can probably meet all ordinary demands, and that your Executive Committee concurred in the conclusion that no action be taken at this time to terminate membership in the System.

"On January 2, 1935, you reported that the major problem of the institution was one of management and that, after having given careful consideration to that factor, your Executive

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"Committee ordered the report of examination of the bank as of November 10, 1934, forwarded to the Board with the recommendation that membership be terminated within 90 days after January 15, 1935, unless the bank were put under competent management and a substantial portion of the losses as estimated by the examiner were charged off.

"The Board notes that you have been closely following the affairs of the bank and have been receiving the cooperation of the State banking authorities. Your efforts in this connection are appreciated and it is hoped that with the continued cooperation of the State authorities you will be able to effect further progress in improving its condition.

"Please keep the Board advised of any improvements made in the general condition of the bank and particularly with regard to the elimination of unsatisfactory assets and strengthening of the management."

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 July 16, 1935, in regard to the capital adjustment program of the 'B. M. C. Durfee Trust Company' of Fall River, Massachusetts, which was approved by the Board on May 27, 1935, in accordance with the plan set forth in your letter of May 1, 1935, and the accompanying data.

"The plan of capital adjustment as submitted to the Board provided for the elimination of all losses classified by your examiner in the report of examination of April 2, 1935, including the net amount of all securities depreciation. Your letter of May 1, 1935, stated that the bank had agreed to charge off such losses and depreciation, amounting to \$176,833.85, and the pro forma statement which accompanied your letter showed that amount of losses and depreciation as scheduled for charge-off. The elimination of the securities depreciation appeared especially desirable in this instance as the entire amount was in stocks, largely those of other banks.

"It appears from your letter of July 16, 1935, that the bank has charged off all loan losses classified in the report of examination of April 2, 1935, and a substantial portion of the doubtful items. It appears also that the amount of securities depreciation classified as a loss (\$123,283.66), has been reduced to approximately \$45,000 through enhancement in security values, and that the bank feels that the remaining depreciation, as well as the balance of the doubtful assets, is adequately protected by

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"the reserve for contingencies of \$200,000 which has been established.

"In view of the charge-offs made by the bank, the improvement in the market value of the securities account, and the contingent reserve established, and of your recommendation in the premises, the Board will not require the elimination of the remaining securities depreciation at this time. The Board feels, however, that within a reasonable time the bank should make provision, either by charge-off or the establishment of a valuation reserve, for depreciation in its securities account."

Approved.

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

"Reference is made to the report of examination of the 'Floral Park Bank', Floral Park, New York, as of March 30, 1935, and to the supplemental information submitted in connection therewith.

"After allowance for estimated losses, doubtful assets and depreciation in securities, the report of examination reflects a net sound capital of \$126,200 as compared with deposits of \$1,665,500. It has been noted that the report of examination reflects estimated losses of \$74,000 and depreciation in lower grade bonds, stocks and defaulted bonds of \$148,400, a total of \$222,400, as compared with common capital of \$100,000 and surplus, undivided profits and reserves aggregating \$150,500. It has been noted that the president has stated that the bank is giving consideration to a reduction of \$60,000 in its common capital and the conversion of a like amount of Class 'B' debentures into common stock. In view of the desirability and importance of eliminating estimated losses and depreciation in lower grade securities to the fullest extent, it will be appreciated if you will urge upon the bank the execution of such plan as promptly as possible.

"It has been noted that the annual rental of \$17,000 for banking quarters paid to the Bantile Holding Company, a directors' interest, continues to be a heavy drain on the bank's earnings and constitutes one of its major problems. It appears that the \$100,000 of capital notes sold to the Reconstruction Finance Corporation will mature on November 30, 1936, shortly prior to the expiration of the present lease and that because of the unwillingness of the parties at interest to effect a satisfactory adjustment of the rental at the time the notes were purchased, the Corporation was unwilling to fix a longer maturity.

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"It is evident that steps will have to be taken prior to the maturity of the capital notes to effect some solution of the rental problem and it will be appreciated if you will cooperate with the New York State Banking Department in endeavoring to reach a satisfactory adjustment in this connection.

"The examiner has stated that the management of the bank is left chiefly in the hands of Vice President Van Nostrand, who is considered inefficient, and that he maintains as his assistants two officers who lack ability and judgment. The examiner has further stated that the bank is poorly managed and that there should be an immediate change of management if the bank is to survive. It will be appreciated if you will advise what steps, if any, are contemplated looking to a strengthening of the management.

"Please keep the Board advised as to any improvements effected in the general condition of the bank and of the eliminations made of estimated losses and depreciation in lower grade securities."

Approved.

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

"Reference is made to Mr. Fry's letter of July 26, 1935, regarding the position of the 'Maryland Trust Company', Baltimore, Maryland, with respect to the elimination of estimated losses amounting to \$518,000 as shown by the report of examination as of April 15, 1935, at which time the bank had capital of \$3,000,000 (debentures \$2,000,000, common \$1,000,000), surplus of \$500,000, undivided profits of \$201,400, and reserves of \$531,100, for contingencies.

"It has been noted that the examination of the bank as of January 15, 1934, showed estimated losses of \$2,381,300 and that after considerable discussion the bank charged off approximately \$2,100,000 in losses and established reserves of approximately \$500,000 for contingencies. It is understood that the officers of the bank feared to make further charge-offs at that time lest such unfavorable comment be aroused as to endanger the bank's standing in the community. In response to the request of your office that losses as estimated in the report of examination as of April 15, 1935 be eliminated, the bank advised that there had been an appreciation of approximately \$160,000 in securities account since the date of examination, that the rise in the value of securities had materially improved the value of the underlying collateral in

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"the case of some loans estimated as partial loss, and that the situation had been reduced to a point where charge-offs should be made only as the losses were definitely determined.

"The Board understands that, after a careful survey of the situation, your Executive Committee feels that the views of the management are warranted to some extent and that it would be a satisfactory adjustment if the bank should charge off approximately \$200,000 of losses at this time and provide for the elimination of the remaining losses by gradual reductions in the reserve for contingencies if that should be necessary, and that the bank has been so advised.

"As you know, the Board feels that banks should promptly provide for elimination of losses. In the circumstances, however, the Board will not impose any requirements for eliminations at this time in excess of the eliminations requested by your Executive Committee. It is suggested, however, that the bank be advised that the prompt elimination of determined losses will be expected, and that careful attention be given to the classification of assets when the bank is next examined with a view to the requirement of proper provision for all losses estimated at that time.

"The report of examination as of April 15, 1935 shows that the bank was holding 600 shares of Merchants and Miners Transportation Company, and that the stock had been acquired between November, 1930, and May, 1934. The report of examination as of September 10, 1934, however, reflects holdings of 500 shares of such stock at that time. The report contains no information as to the manner in which the stock was acquired and it will be appreciated if you will forward advice as to whether any of the stock was acquired in violation of the provisions of section 9 of the Federal Reserve Act.

"According to the report of examination the bank has an affiliate, The Maryland Trust Building Company, which has not been reported to the Board on Schedule O of the Call Report of Condition or on Form 220. It is understood that the affiliate is dormant, has no assets, and that its only liabilities are represented by capital stock wholly owned by the bank and carried on its books at \$1. Although the company is inactive, so long as it is an affiliate and has not been placed in formal liquidation, it should be properly reported as required by law in connection with call reports of condition. In view of the circumstances, the Board will not require submission of reports in connection with previous calls, but reports with respect to the affiliate should be submitted in connection with future calls unless the requirements for submission of reports of affiliates have been amended, in which case the bank should be guided by the instructions then in force."

Approved.

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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 First National Bank of Pleasantville', Pleasantville, New York, from \$200,000 to \$100,000, in accordance with a plan which provides that approximately \$55,000 of the released capital shall be used to eliminate a corresponding amount of substandard assets and that the balance of the released capital shall be credited to the bank's surplus account, all as set forth in your memorandum of July 27, 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 Concord National Bank of Concord', Concord, Massachusetts, from \$200,000 to \$100,000, pursuant to a plan which provides that approximately \$36,577 of the released capital shall be used to eliminate a like amount of the least desirable assets, which are to remain the property of the bank, and that the remaining portion shall be credited to surplus, all as set forth in your memorandum of July 27, 1935."

Approved, together with a 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 24, 1935, inclosing a copy of a letter dated June 20, 1935, from 'Old Colony Trust Associates', Boston, Massachusetts, requesting the issuance of a limited voting permit to the Associates in connection with a proposed reduction in capital of 'The Concord National Bank of Concord', Concord, Massachusetts.

"The Board has considered this request and authorizes you to issue a limited voting permit to Old Colony Trust Associates, Boston, Massachusetts, under the provisions of Section 5144 of the Revised Statutes, as amended, to vote the stock owned or controlled of The Concord National Bank of Concord, Concord, Massachusetts, for the following purposes:

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"At any time prior to October 1, 1935, to authorize a reduction in capital stock, change in number of shares of stock, and/or change in par value of shares of 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 purpose; provided that all action taken shall be in accordance with a plan which shall have been approved by the appropriate supervisory authorities.

"Please have the permit authorized herein prepared by counsel for the Federal Reserve Bank of Boston in the usual form. It will be appreciated if you will mail to the Board for its records two executed copies of the permit issued by you under the authorization contained in this letter."

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

"Reference is made to your letter of July 19, 1935, with inclosures, relative to the application of 'Union County Trust Company', Elizabeth, New Jersey, for permission to vote the shares of stock which it owns or controls of 'The First National Bank of Cranford', Cranford, New Jersey, to place such bank in voluntary liquidation and to effect the sale or transfer of its assets and liabilities to the Union County Trust Company.

"The copy of the Trust Company's letter of July 6, 1935, submitted with your letter, indicates that the Reconstruction Finance Corporation authorized, upon certain terms and conditions, the subscription for and purchase of additional preferred stock of the Union County Trust Company in the amount of \$1,000,000; that the Union County Trust Company has not taken the required action in the matter but has submitted instead a plan which it feels 'will more completely and satisfactorily effect sound recapitalization'; that the substitute plan has been discussed with and approved by the active officers of the institution but has not been submitted to the directors or stockholders; and that it is necessary at this time to consider the plan as tentative and subject to the formal approval of the directors and stockholders and the Commissioner of Banking and Insurance of the State of New Jersey. It does not appear that the substitute plan has been approved by either the Washington office or the New York agency of the Reconstruction Finance Corporation.

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"As indicated in its letter to you, dated January 5, 1935, on account of the very unsatisfactory condition of Union County Trust Company, the Board does not feel that it would be justified in authorizing the issuance of a permit to the Trust Company for the purposes requested until definite plans for the rehabilitation of its capital structure and the absorption and liquidation by it of The First National Bank of Cranford have been approved by the appropriate supervisory authorities, including the Comptroller of the Currency. Therefore, it seems unnecessary for the Board to give further consideration to the application until such plans shall have been definitely formulated and approved by the appropriate supervisory authorities. Please advise the applicant accordingly."

Approved.

Telegram dated August 6, 1935, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls in "The First National Bank and Trust Company of Chamberlain", Chamberlain, South Dakota, "New First National Bank in Dell Rapids", Dell Rapids, South Dakota, "The Northwestern National Bank of Madison", Madison, South Dakota, "Security National Bank and Trust Company of Sioux Falls", Sioux Falls, South Dakota, and "The National Bank of Huron", Huron, South Dakota, at any time prior to October 1, 1935, (1) to act upon a proposal or proposals to consolidate such banks and Brookings County Bank, Brookings, South Dakota, under the charter of Security National Bank and Trust Company of Sioux Falls and under the title of Northwest Security National Bank of Sioux Falls; and (2) to take such further action as is necessary to effect such consolidation; provided that all action taken

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shall be in substantial accordance with the provisions of the agreement of consolidation forwarded to Northwest Bancorporation by E. H. Gough, Deputy Comptroller of the Currency, under date of July 20, 1935, and shall be approved by the Comptroller of the Currency. The telegram also stated that the Board's information indicates that the holding company affiliate relationships between Northwest Bancorporation and Security National Bank and Trust Company of Sioux Falls and The National Bank of Huron may have been terminated, but in view of the urgency of the matter the Board had not attempted to rule upon the question and had included such banks in the voting permit authorized in the telegram.

Approved.

Letter dated August 5, 1935, approved by three members of the Board, to Mr. Malcolm C. Brock, Malcolm C. Brock & Company, Buffalo, New York, reading as follows:

"Reference is made to your letter of July 8 regarding the extension of credit by a member of a national securities exchange who is acting for another broker in the clearance of unregistered securities that such other broker has purchased for a customer in a bona fide cash transaction. From your letter we assume the facts to be as follows:

Your firm, a broker or dealer within the meaning of Regulation T, purchases for a customer unregistered securities in a bona fide cash transaction. As an incident to execution of the transaction, you instruct the seller of the securities to deliver them to, and to receive payment from, your correspondent, who is a member of a national securities exchange. Your correspondent takes delivery of the securities and pays for them, debiting your account for the amount of the purchase price.

"Under section 6 of Regulation T, as amended, it is permissible for your correspondent to extend credit to you on these securities, by paying for them without having received payment from you, if the credit is extended in a special cash account recorded separately by your correspondent. Such an

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"extension of credit is permissible as 'incidental to a bona fide cash transaction', even though your correspondent did not purchase the securities for you, but it must be for a limited period not exceeding seven days, and it is subject to the other conditions specified in section 6. The seven day period limiting the extensions of credit, both from your correspondent to you and from you to your customer, commences to run when your correspondent pays for the securities."

Approved.

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

"There are inclosed herewith six copies of a tentative draft of regulation relating to loans to executive officers of member banks. It will be appreciated if you and the officers of your bank will study this regulation and give the Federal Reserve Board your comments and suggestions thereon at the earliest practicable date, not later than thirty days from the date of this letter.

"The draft of regulation is based upon the provisions of section 326(c) of the Banking Act of 1935 (H.R. 7617) as it passed the House of Representatives. Inasmuch as no substantial change has been made in this section by the Senate it is felt that some progress can be made at this time in the drafting of this regulation. Of course, the regulation will not be issued unless the Banking Act of 1935 is finally enacted into law."

Approved.

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

"Receipt is acknowledged of your letter of July 31, 1935, suggesting an amendment to section 22(b) of the Federal Reserve Act in addition to the amendments to that section contained in section 326(b) of the proposed Banking Act of 1935, H.R. 7617. In substance, you suggest that, in addition to forbidding examiners to disclose the names of borrowers or the collateral for loans, they also be forbidden to disclose any other information obtained in the course of the examination.

"The amendment which you suggest would seem to be desirable; but, in view of the fact that the bill has already

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"been passed by both houses of Congress and there is no difference in the form of the proposed amendment to section 22(b) as passed by both houses, except the difference in the name of the Federal Reserve Board, it would seem too late to attempt to have the amendment which you suggest adopted at this session of Congress. However, a record of your suggestion will be made and it will be given further consideration when a favorable opportunity to obtain further amendments to the Federal Reserve Act occurs."

Approved.

Telegram to the Federal Reserve Agents at the Federal Reserve Banks of New York, Philadelphia, Cleveland and Chicago, prepared in accordance with the action taken at the meeting of the Board on August 6, 1935, and reading as follows:

"Referring to Treasury Department telegram dated January 26, 1935, signed by Mr. Coolidge requesting that all old form gold certificates now outstanding be redeemed as soon as convenient, Board gave consideration to this subject at meeting on August 6 and requests that you ask bank to withdraw all old form gold certificates now held by you as collateral for outstanding Federal Reserve notes as promptly as practicable and to substitute other acceptable collateral therefor. Please notify Board when such substitution has been completed."

Approved.

Letter to Governor Hamilton of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of July 23, 1935, in view of the special circumstances outlined in your letter, the Federal Reserve Board interposes no objection to your bank's contributing \$300 a year for five years to the Chamber of Commerce of Kansas City in connection with its program of commercial and industrial expansion. It is understood that this contribution will be reviewed annually by your board of directors."

Approved.

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

"The Board is in receipt of letters from a number of Reserve banks inclosing a communication received from James C. Dolley, Associate Professor of Banking, University of Texas, in which he asks a number of questions regarding the operations of the Federal Reserve banks under Section 13b. The Board sees no objection to furnishing Mr. Dolley the information requested in his letter so far as it is available and to the extent the executive committee of your bank thinks advisable. In case you have received a request for such information, please furnish the Board with a copy of your reply to Mr. Dolley."

Approved.

Letter dated August 6, 1935, approved by four members of the Board, to the Attorney General of the United States, reading as follows:

"This refers to your letter of July 26, 1935, regarding the confidential nature of reports made by Special Agents of the Federal Bureau of Investigation and requesting the Board to bring the matter to the attention of those who have occasion to handle reports of this character.

"There is inclosed a copy of a letter which the Board has transmitted to the Federal Reserve agent at each Federal Reserve bank which is self-explanatory."

Approved, together with a letter to all Federal reserve agents, reading as follows:

"There is inclosed a copy of a letter dated July 26, 1935, from the Attorney General of the United States in which he stresses the fact that reports made by Special Agents of the Federal Bureau of Investigation in connection with the investigation of complaints referred to the Department of Justice are to be deemed confidential.

"It will be appreciated if you will bring this matter to the attention of all officers and employees of your bank who may have occasion to handle reports of Special Agents of the Federal Bureau of Investigation and request them to exercise extreme care in the matter of handling such reports in order that no information contained therein will be disclosed to persons not entitled thereto."

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Letter to Mr. Ewing W. Graham, Associate, T. Harris Smith and Associates, Philadelphia, Pennsylvania, reading as follows:

"This refers to your letter of July 22, 1935, in which you inquire whether it is permissible under the Federal Reserve Act for a member bank of the Federal Reserve System to give a free premium, such as a fountain pen or check protector, as an inducement for the opening of a demand account or for the building up of the balance in such account to a certain minimum.

"The proposed Banking Act of 1935, H.R. 7617, contains certain provisions the enactment of which may have a bearing on the question which you present and in the circumstances it is preferred not to undertake to express an opinion on the question at this time, pending the possible enactment of the Banking Act of 1935 at this session of Congress. Upon the enactment of this bill or upon the adjournment of Congress without enactment of the bill, consideration will be given to the question and you will be advised further in due course."

Approved.

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

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 7.</u>		
The Polo National Bank, Polo, Illinois.	36	36

Approved.

Thereupon the meeting adjourned.

Charles Manier
Secretary.

Approved:

W. C. ...
Governor.