

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, August 14, 1935, at 11:30 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 August 13, 1935, approved by three members of the Board, to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to the analysis of the report of examination of the 'Union Trust Company', St. Petersburg, Florida, made as of June 10, 1935, by State examiners, which was transmitted with your letter of July 10, 1935, and to a copy of the letter dated August 1, 1935, from the State Comptroller to the president of the Union Trust Company relative to such examination, which was transmitted with your letter of August 5, 1935.

"On page 5 of the analysis is a copy of a letter addressed to the Federal Reserve Board under date of July 1, 1935, by Mr. McEachern, president of the bank. The original of this letter does not appear to have been received by the Board. In the letter, President McEachern advised that the bank had disposed of the George B. Burnett \$60,000 real estate mortgage, which it was believed effected compliance with condition of membership numbered 21, and that no officers of the bank were indebted, directly or indirectly, to the bank, all notes and obligations of the officers having been paid in full.

"Condition of membership numbered 21 referred to above reads as follows:

'Within six months after the admission of such bank to membership, the 422 shares of its own stock held by trustees as security to certain loans made by such bank in accordance with the terms of an agreement dated January 16, 1932, shall be disposed of at an equitable price and the proceeds applied in accordance with the terms of such agreement.'

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"It has been noted, also, that on July 9 President McEachern advised you that the agreement covering the 422 shares of bank stock had been dissolved and the shares returned to the Eureka Investment Company inasmuch as the indebtedness of the Eureka Investment Company and the indebtedness of Mr. Brophy, direct and indirect, had been paid.

"In the letter dated August 1, 1935, to President McEachern, the Comptroller of the State of Florida refers to the fact that subsequent to the bank taking over the \$60,000 mortgage, a write-off of \$15,000 was made against the note and that in the ultimate settlement it appears that the bank is sustaining a net loss of \$5,000 on a transaction for which Mr. Brophy, chairman of the board, was responsible. The Comptroller further states that it seems that it would be no more than fair that Mr. Brophy should repay the \$5,000 loss. According to the information submitted at the time of the application of the bank for membership, the \$60,000 mortgage was purchased from Director and Mrs. Brophy without recourse, the consideration being the \$50,000 stock issued when the capital of the bank was increased from \$50,000 to \$100,000. Inasmuch as the mortgage was carried on the books at \$60,000, it is assumed that the stock was sold at a premium of \$10,000, which was credited to surplus. It is not clear, therefore, from the information submitted whether the mortgage was disposed of for \$45,000, which would represent a net loss of \$15,000 to the bank, or whether it was disposed of for \$55,000, the value of the property as stated in the report of examination of the bank as of December 3, 1934, which would represent a net loss to the bank of \$5,000 and a recovery of \$10,000 of the amount previously charged off. It will be appreciated if you will forward definite advice in this respect.

"In any event, it is not clear why the bank should sustain any loss on this mortgage inasmuch as, according to the agreement dated January 16, 1932, a copy of which was submitted in connection with the application for membership, the 422 shares of capital stock of the Union Trust Company were pledged with the trustees to secure not only various notes on which the Eureka Investment Company or Mr. Brophy were liable, but also the \$60,000 Burnett mortgage. Condition of membership numbered 21 provides that the stock shall be disposed of at an equitable price and the proceeds applied in accordance with the terms of the agreement dated January 16, 1932. It appears, therefore, that the return of the 422 shares of stock before the \$60,000 mortgage was paid in full is not in accordance with the terms of the agreement and is, therefore, a violation of the condition of membership.

"It will be appreciated if you will investigate this matter further and advise the Board fully regarding the transaction,

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"together with your recommendation in the matter."

Approved.

Letter dated August 13, 1935, approved by three members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to the merger of 'The Tompkins County National Bank of Ithaca' and the 'Ithaca Trust Company', both of Ithaca, New York, effective May 28, 1935, under the charter of the latter institution and the new title of 'Tompkins County Trust Company'.

"From the information set forth in Mr. Dillistin's letter of August 6, 1935, and the report of examination of the merged bank as of June 8, 1935, it appears that as a part of the transaction the common capital stock of the Ithaca Trust Company was reduced from \$400,000 to \$160,000 and simultaneously increased to \$260,000 through the issuance of 10,000 new shares (par \$10) to the stockholders of the national bank, and that \$650,000 of 'A' debentures and \$100,000 'B' debentures were sold to the Reconstruction Finance Corporation and to local interests, respectively. It is noted that this adjustment in capital has enabled the elimination of a substantial amount of substandard assets from the component institutions and strengthened the capital structure of the merged bank.

"The Board has reviewed the information submitted, from which it appears that the transaction has not resulted in any material change in the general character of the assets of or broadening in the functions exercised by the State member bank within the meaning of the general condition under which it was admitted to membership. The Board will, therefore, interpose no objection to the merger provided your counsel is satisfied as to the legal aspects involved and the transaction has been approved by the appropriate State authorities. It is understood that copies of any amendments to the trust company's charter which were adopted in connection with the transaction will be furnished the Board as soon as they have received the approval of your counsel."

Approved.

Letter dated August 13, 1935, approved by three members of the Board, to "The Knisely National Bank of Butler", Butler, Indiana,

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reading as follows:

"The Federal Reserve Board has given consideration to your application for permission to exercise certain fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as executor, administrator and guardian of estates, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise the fiduciary powers granted by the Board. A formal certificate covering such authorization will be forwarded to you in due course."

Approved.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit to the "Yakima Holding Corporation", Yakima, Washington, entitling such organization to vote the stock which it owns or controls of the "Yakima First National Bank", Yakima, Washington, and "The First National Bank of Wapato", Wapato, Washington, at any time prior to October 31, 1935, (1) to act upon proposals to authorize or ratify the execution of agreements providing for the consolidation of Yakima First National Bank and Guaranty Trust Company, both of Yakima, Washington, and to take such further action as is necessary to effect such consolidation; (2) to act upon proposals (a) to authorize or ratify the execution of a contract or contracts providing for the sale of the assets of The First National Bank of Wapato to, and the assumption of the liabilities of such bank by, Yakima First National Bank, (b) to place The First National Bank of Wapato in voluntary liquidation, and (c) to take such further action as is necessary to effect such sale of assets, assumption of liabilities, and liquidation, provided that all

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action taken under (1) and (2) shall be in accordance with a plan or plans which shall have been approved by the appropriate supervisory authorities. The telegram stated that information received from the Organization Division of the Office of the Comptroller of the Currency indicated that the Wapato bank is not to be included in the proposed consolidation under the Act of November 7, 1918, as amended.

Approved.

Letter dated August 13, 1935, approved by three members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of August 5, 1935, inclosing a copy of an application of The Western Loan and Investment Company, Boise, Idaho, for a 'temporary' voting permit authorizing it to vote the stock which it owns or controls of Ontario National Bank, Ontario, Oregon, for the purpose of placing such bank in liquidation and requesting advice as to whether such application is in acceptable form.

"As you know, the Board's Regulation P provides that applications for voting permits shall be filed on F.R.B. Form P-1 and it is the Board's policy not to accept applications in any other form. In this connection it may be noted that Sec. 5144 of the Revised Statutes of the United States provides that no voting permit shall be granted except upon certain conditions, including the execution of certain agreements by the holding company affiliate. Such agreements are contained in F.R.B. Form P-1 but are not contained in the application filed by The Western Loan and Investment Company. Accordingly, it will be necessary for the applicant to execute a new application on F.R.B. Form P-1. However, as it is understood that the holding company affiliate status of The Western Loan and Investment Company will terminate upon the proposed liquidation of Ontario National Bank, the applicant will not be required to file any exhibits with its application except exhibits A and C.

"You may wish to call to the applicant's attention the fact that under the provisions of the proposed Banking Act of 1935 (H. R. 7617) it would not be necessary for a holding company affiliate to secure a voting permit in order to vote to place a

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"subsidiary member bank in voluntary liquidation or to take any other action pertaining to the voluntary liquidation of such a bank."

Approved.

Memorandum dated August 10, 1935, from Mr. Wyatt, General Counsel, outlining certain provisions of the Federal Register Act, approved July 26, 1935, affecting the Federal Reserve Board, and suggesting that the necessary steps be taken to comply with the requirement of Section 11 of the Act that the Board file a complete compilation of all documents issued or promulgated prior to September 24, 1935, and which on that date are still in force and effect and relied upon by the Board as authority for, or invoked or used by it in the discharge of, any of its functions or activities.

Approved, and counsel was requested to prepare memoranda, for the signature of the Secretary, to the heads of the various divisions of the Board's staff outlining the information that should be compiled in compliance with the requirement of the law.

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

"Receipt is acknowledged of your letter of August 2, 1935, to Mr. Paulger requesting advice as to whether there would be any objection to the furnishing of copies of the Handbook for Trust Examiners which has been prepared under your direction to the banking authorities of the several States.

"The Board feels that, as you suggested, it would be desirable for examinations of trust departments of institutions exercising trust powers throughout the United States to be on a substantially uniform basis. The furnishing of copies of the Handbook your office has prepared to the various State banking authorities would be a constructive step towards attaining uniformity in trust department examination procedure, and the Board

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"feels that it would be desirable to furnish the banking authorities of the various States with copies of the Handbook.

"It is understood that, in the course of the preparation of the Handbook, suggestions and criticisms were obtained from each of the Federal Reserve banks and suggestions were also obtained from members of the Board's staff. Therefore, while the Board has not attempted to approve the Handbook as an official document of the Board, the Handbook may properly be considered to represent the composite thought of the System based on its comparatively brief experience in active examinations of trust departments. In the circumstances, it is suggested that, in submitting the Handbook to the banking authorities of the various States, attention be called to these facts and any suggestions which the experience of any such authorities indicates is desirable be requested, in order that eventually the Handbook may be made as complete and useful as practicable. In this connection, specific attention should be called to the fact that it is not contemplated that the Handbook will be used by institutions exercising trust powers as a manual covering the administration of trusts, but that it is designed merely for the information and assistance of examiners in determining whether or not trust departments are being conducted in accordance with sound practices and for the assistance of examiners in obtaining a correction of any unsound practices. Accordingly, it might be suggested to the State banking authorities that they not distribute the Handbook to institutions exercising trust powers.

"As you know, it is the practice of each of the Federal Reserve banks to keep in close touch with the banking authorities of the various States in their respective districts and to cooperate with such authorities in connection with examinations of member banks. In view of these facts and in view of possible local questions in particular Federal Reserve districts, it would seem desirable that the Handbook be distributed directly by you to the banking authorities of the States in your district and that you furnish copies to each of the other Federal Reserve banks and request that consideration be given to the desirability of each of such banks distributing copies to the banking authorities of the various States in their respective districts on the basis discussed in this letter.

"It is also suggested that copies of the Handbook be furnished to the chief national bank examiners in the various Federal Reserve districts for their information and for such suggestions as they may deem desirable. It is contemplated that the distribution to the chief national bank examiners will be made through the various Federal Reserve banks on the same basis as the distribution to the banking authorities of the various States. When you have

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"forwarded printed copies of the Handbook to the Board, it will be glad to forward a copy to the Comptroller of the Currency for his information and for such suggestions as he may deem advisable.

"As a matter of information in connection with a possible further revision of the Handbook in the light of any suggestions which may be received, it would also seem desirable that you request each of the Federal Reserve banks to forward your office any suggestions received, together with any comments which the Federal Reserve bank may desire to make in connection therewith. In view of the fact that the Handbook was prepared by your office, it is assumed that, in the event any revision should be necessary, it will be prepared by your office.

"A copy of this letter is being forwarded to each of the Federal Reserve banks for their information and guidance.

"The Board has requested me to express to you its appreciation of your constructive work in this connection."

Approved.

Letter to Honorable Edward R. Burke, United States Senate,

reading as follows:

"Reference is made to your letter of August 1, requesting certain information relative to estimated governmental expenditures and employment in the State of Nebraska during the fiscal year ending June 30, 1936. The only expenditures contemplated in the State of Nebraska by the Federal Reserve banks during the fiscal year ending June 30, 1936 are those to be made in connection with the operation of the Omaha Branch of the Federal Reserve Bank of Kansas City. It is estimated that the Omaha Branch will employ an average of 98 persons during the year, and that its operating expenditures will amount to approximately \$270,000. It may be noted in this connection, however, that except for comparatively small amounts of expenditures representing the cost of handling work for the United States Treasury and other governmental agencies, for which the Branch receives reimbursement, the expenditures of the Branch are not made from government funds or appropriations but are derived from earnings of the Federal Reserve bank."

Approved.

Letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

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"On the basis of the additional information forwarded with your letters of July 12 and July 31, 1935, further consideration has been given to the questions whether The First Trust Company of Lincoln, Nebraska, an affiliate of the First National Bank of Lincoln, should be deemed to be 'engaged principally' in dealing in securities within the meaning of section 20 of the Banking Act of 1933 or 'engaged primarily' in buying and selling securities within the meaning of section 32.

"The national bank examiner raised these questions in view of the fact that he found that 57 percent of the net profits of the trust company for the year 1934 resulted from the operations of its 'bond department'. However, it appeared that a substantial portion of the profits of this department was derived from commissions received for the execution of orders for the purchase and sale of securities on behalf of others. Accordingly, in view of the fact that the Board has ruled that transactions of this kind are not transactions of the kind referred to in section 32 (Federal Reserve Bulletin for June 1934, page 393), and in view of the fact that section 20 refers to corporations engaged principally in 'the issue, flotation underwriting, public sale, or distribution' of securities, you were requested to obtain further information showing what proportion of the gross income received from transactions in securities resulted from transactions involving merely the execution of orders on behalf of others.

"The information which you have now forwarded indicates that although the total commissions and profits derived from purchasing and selling securities constituted 38 percent of the total gross income of the trust company, commissions received for the execution of orders for the purchase and sale of securities on behalf of others constituted approximately 28 percent of the total gross income and transactions in which the trust company was 'acting as principal' produced approximately 10 percent thereof. Furthermore, although the information submitted is not clear on this point, it seems probable that there have been included in the total of transactions in which the trust company was 'acting as principal' certain transactions in which it was in fact purchasing and selling securities on behalf of others.

"It is also noted that the president of the trust company states that it has never been the practice of the trust company to sell participations against mortgages held in pools, and that, although in the past it has sold participations in single mortgages, the only participations of this kind which are being sold at this time are in cases where the mortgagor is unable to pay and an extension is necessary.

"Under the circumstances, the Board sees no reason to differ with the conclusion reached by counsel for your bank that the trust company should not be regarded as 'engaged principally' in transactions of the kind referred to in section 20 of the Banking Act

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"of 1933 or 'engaged primarily' in transactions of the kind referred to in section 32."

Approved.

Letter to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Receipt is acknowledged of your letter of August 5, 1935, transmitting at the request of Mr. John K. Ottley, President of the First National Bank of Atlanta, a suggestion of the Atlanta Clearing House banks that section 324(c) of the proposed Banking Act of 1935 (H. R. 7617) be amended so as to specifically prevent banks from absorbing exchange and collection charges on checks deposited with them. It appears that it was the consensus of the representatives of the Atlanta Clearing House banks that such an amendment should be enacted into law but that, if in our opinion it would be unwise at this time to suggest any change in the Banking Act of 1935, consideration might be given to incorporating such a provision in Regulation Q.

"In view of the provision in section 324(a) of the bill, which authorizes the Board 'to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof', it is believed that the matter can be covered by a suitable provision in Regulation Q. Therefore, it would seem unnecessary and inadvisable to suggest at this late date that the language suggested by the Atlanta Clearing House banks be inserted in the bill.

"Please advise Mr. Ottley that the constructive suggestion of the Atlanta Clearing House banks is greatly appreciated and that the matter of covering the subject clearly by a provision in Regulation Q will be given serious consideration."

Approved.

Letter dated August 13, 1935, approved by three members of the Board, to an applicant for a Clayton Act permit advising of the issuance of a permit by the Board as follows:

Mr. Howard East, to serve at the same time as a director of The Citizens National Bank of Arkadelphia, Arkadelphia, Arkansas, and as a director and officer of The Citizens National Bank of Camden, Camden, Arkansas, for the period ending January 14, 1936.

Approved.

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Letters to applicants for Clayton Act permits advising respectively of the issuance of permits by the Board as follows:

Mr. Russell L. White, to serve at the same time as a director of The Indiana National Bank of Indianapolis, Indianapolis, Indiana, and as a director of The Union Trust Company of Indianapolis, Indianapolis, Indiana, for the period ending January 14, 1936.

Mr. A. J. Poorman, to serve at the same time as a director and officer of The Fairfield National Bank, Fairfield, Illinois, and as a director of The First National Bank of Wayne City, Wayne City, Illinois, for the period ending January 14, 1936.

Mr. Sol Shatz, to serve at the same time as a director and officer of the Mason Hall Bank, Kenton, Tennessee, and as a director of The Old National Bank of Union City, Union City, Tennessee, for the period ending January 14, 1936.

Mr. D. P. Hogan, to serve at the same time as an officer of the Federal Land Bank of Omaha, Omaha, Nebraska, and as a director and officer of the Farmers Savings Bank, Massena, Iowa, for the period ending January 14, 1936.

Mr. J. C. Irvine, to serve at the same time as a director of The First National Bank of Lebanon, Lebanon, Oregon, and as an officer of The United States National Bank of Portland, Portland, Oregon, 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. 1.</u>	
The Windham County National Bank of Danielson, Danielson, Connecticut	15
The First National Bank of Belfast, Belfast, Maine	2
The First National Bank of Brunswick, Brunswick, Maine	9
The First National Bank of Damariscotta, Damariscotta, Maine	2

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<u>Applications for ADDITIONAL Stock: (Continued)</u>		<u>Shares</u>
<u>District No. 1. (Continued)</u>		
The National Bank of Gardiner, Gardiner, Maine	3	
The First National Bank of Lewiston, Lewiston, Maine	9	
The First National Bank of Rockland, Rockland, Maine	4	
The Park National Bank of Holyoke, Holyoke, Massachusetts	30	
North Adams National Bank, North Adams, Massachusetts	7	
Webster National Bank, Webster, Massachusetts	9	
Farmington National Bank, Farmington, New Hampshire	3	
The First National Bank of Springfield, Springfield, Vermont	2	
Union Trust Company of Ellsworth, Ellsworth, Maine	3	
Menotomy Trust Company, Arlington, Massachusetts	9	
The Union Trust Company of Boston, Boston, Massachusetts	6	
Fall River Trust Company, Fall River, Massachusetts	1	
Naumkeag Trust Company, Salem, Massachusetts	9	
Somerville Trust Company, Somerville, Massachusetts	<u>4</u>	127
<u>District No. 2.</u>		
The First National Bank of Union City, Union City, New Jersey	270	
The Westfield Trust Company, Westfield, New Jersey	201	
The Peoples Bank of Hamburg, Hamburg, New York	<u>9</u>	480
<u>District No. 7.</u>		
Farmers Loan and Trust Company, Tipton, Indiana	2	
The State Bank, Fort Dodge, Iowa	3	
The Indiana National Bank of Indianapolis, Indianapolis, Indiana	<u>300</u>	305
<u>District No. 9.</u>		
The Truman National Bank, Truman, Minnesota	12	

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<u>Applications for ADDITIONAL Stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 9. (Continued)</u>		
The First National Bank of Buxton, Buxton, North Dakota	10	22
	<hr/> Total	<hr/> 934
 <u>Applications for SURRENDER of Stock:</u>		
<u>District No. 5.</u>		
The Shenandoah National Bank of Woodstock, Woodstock, Virginia	60	60
 <u>District No. 7.</u>		
National Exchange Bank of Fond du Lac, Fond du Lac, Wisconsin	120	120
	<hr/> Total	<hr/> 180

Approved.

Thereupon the meeting adjourned.

C. Ester Howell
Secretary.

Approved:

W. S. ...
Governor.