

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 29, 1935, at 12:30 p. m.

PRESENT: Mr. Thomas, Vice Chairman  
Mr. Miller  
Mr. James

Mr. Morrill, Secretary  
Mr. Vest, Assistant General Counsel  
Mr. Thomas, Assistant Director, Division  
of Research and Statistics

Mr. Miller stated that he had asked that this meeting be held for the purpose of bringing to the attention of the members of the Board who were in Washington the portion of the manuscript of the Review of the Month, to be printed in the September issue of the Federal Reserve Bulletin, with respect to the Banking Act of 1935.

The portion of the manuscript referred to by Mr. Miller was reviewed and discussed; various changes therein were agreed upon; and the members of the staff were authorized to make such minor additional changes in phraseology as might be necessary to perfect the statement in detail.

A copy of the portion of the manuscript under consideration, as changed, has been placed in the Board's files.

The Committee then acted upon the following matters:

Letter dated August 24, 1935, from Miss Lucy E. McLeod submitting her resignation as a stenographer in the office of the Assistant to the Chairman, to be effective as of that date.

Accepted.

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

8/29/35

-2-

Reserve Bank of Chicago, reading as follows:

"This refers to Mr. Young's letter of July 20, 1935, and inclosures, with reference to the application of the 'Community National Bank of Pontiac', Pontiac, Michigan, for permission to exercise full fiduciary powers. It is understood that the place in which this bank is located has a population of approximately 65,000 people and that the bank has a capital of \$400,000 and a surplus of \$60,000, together with total deposits of approximately \$6,330,000.

"It has been observed that, on July 17, 1935, the Assistant Attorney General of the State of Michigan rendered an opinion from which it appears that, under his interpretation of the laws of that State, the Community National Bank of Pontiac, with its present amount of deposits, should have a capital of at least \$550,000 in order that it may be eligible to obtain permission to exercise full trust powers. In this connection, the Assistant Attorney General has stated that, 'under the Federal statutes, the laws of Michigan which would govern said (national) bank if it were a Michigan bank are the test and the requirements which must be met to secure authority for such trust powers', and it appears that he has based his opinion upon a requirement of the State law, presumably section 11898 of the 1929 Compiled Laws of Michigan, which requires that the capital of a State bank 'shall be increased' to certain specified amounts in the event that its deposits exceed certain figures, and upon section 11901 of such Compiled Laws which provides that, in order for a State bank to obtain permission to exercise full fiduciary powers, its capital and surplus shall not 'be less than the minimum combined capital required by statute for the organization of a bank and a trust company in the city or village where the bank is located'. In view of that opinion and advice obtained from your counsel that such opinion should be controlling in the matter, your office has advised the Community National Bank of Pontiac that its capital is not sufficient to render it eligible to receive permission to exercise the trust powers for which it has made application.

"As you know, under the provisions of section 11 (k) of the Federal Reserve Act, the Board is not authorized to issue a permit to a national bank to exercise trust powers unless it has a capital and surplus equal to the capital and surplus required by the State law of State institutions exercising such powers and, in order that you may be fully advised in the premises, the Board's policy with respect to the granting of full trust powers to national banks in Michigan will be reviewed below in detail.

"Prior to 1925, it was understood that trust companies were the only corporations organized under the laws of Michigan which

8/29/35

-3-

"could exercise trust powers, and, while they were forbidden to engage in a general banking business, they were authorized to loan money on real estate and collateral security and accepted time deposits, thus bringing them into competition to some extent with national banks. Under these circumstances, the Board required national banks in Michigan to have at least the amount of capital required by State law for the organization of a trust company in the same place before they could be authorized to exercise any of the trust powers enumerated in section 11 (k) of the Federal Reserve Act.

"On August 28, 1925, the laws of Michigan were amended so as to authorize State banks to exercise all of the trust powers exercised by trust companies, provided such banks had a capital at least equal to the aggregate minimum capital required by law for State banks and trust companies in the same locality. That amendment also authorized State banks, in the discretion of the Michigan Commissioner of Banking, to act as executor and administrator of estates of deceased persons and as guardian of the persons and estates of minors and incompetent persons if such banks had a capital less than the aggregate minimum capital required for the exercise of full trust powers. It will thus be observed that State banks exercising full trust powers were required to have a greater amount of capital than trust companies exercising similar powers.

"The Board, therefore, after carefully considering the 1925 amendment and with the concurrence of Mr. H. A. McPherson, at that time Commissioner of Banking of the State of Michigan, determined that it could lawfully permit national banks in that State to act as executor, administrator, guardian of estates and committee of estates of lunatics if they had the capital required for the organization of State banks similarly located. During the course of the Board's correspondence with Mr. McPherson regarding this matter, the Board also called his attention to its practice of granting full trust powers to national banks in that State if they had a capital at least equal to that required for the organization of trust companies in the same place, and it does not appear that Mr. McPherson took any exception to this practice.

"Subsequently, however, Mr. R. E. Reichert, Mr. McPherson's successor as Commissioner of Banking, advised the Board that, while he was in accord with its position with reference to the granting of limited trust powers to national banks in his State, he felt that such banks should not be granted full trust powers unless they had the capital required of State banks, as distinguished from trust companies, for the exercise of full trust powers. Mr. W. A. Heath, Federal Reserve Agent at your bank at that time, also indicated in a letter addressed to the Board

8/29/35

-4-

"under date of November 26, 1928, that similar views had been expressed to him by Mr. Reichert. The Board thereupon again gave careful consideration to this question, but, since it did not appear that the authority of trust companies to make loans on real estate and collateral security or the right to receive time deposits had been in any way restricted, the Board advised Mr. Heath, under date of January 21, 1929, that it had 'determined to adhere to the policy which has been followed of granting full trust powers to national banks in Michigan having the capital required of competing trust companies and granting limited trust powers to act as executor, administrator, guardian of estates and committee of estates of lunatics to national banks having the capital required of competing State banks exercising similar powers'.

"In connection with the application of the American National Bank of Grand Rapids, Michigan, for permission to exercise full trust powers, it was ascertained that, in 1929, the laws of Michigan were further amended so as to authorize a State bank to exercise full trust powers provided that its capital and surplus are not 'less than the minimum combined capital required for the organization of a bank and a trust company in the city or village where the bank is located' and so as to permit a trust company to acquire the right to engage in a general banking business if it has 'a capital stock at least equal to the aggregate of the minimum capital required by law for state banks, in the locality where said trust company has its office, and the minimum capital required by law for trust companies in said locality.' It was also ascertained that the 1929 amendment provided that no bank or trust company 'shall be organized without a surplus equal to twenty per cent of its capital', no such requirement having been in effect prior to that time.

"While the American National Bank of Grand Rapids had the capital and surplus required for the organization of a State bank or trust company in Grand Rapids and for the exercise of full trust powers by a State bank, its capital was less than the amount of capital required of a trust company in the same place if it acquired the right to exercise general banking powers under the 1929 amendment. Upon the basis of the Board's position with reference to the granting of limited trust powers, as explained above, it was clear that the Board could properly grant the bank the right to act as executor, administrator, guardian of estates and committee of estates of lunatics; and, on March 17, 1930, permission to exercise these powers was given. However, action upon the remaining trust powers applied for by the bank was deferred pending the receipt of advice from your office as to whether Michigan trust companies which do not acquire the right

8/29/35

-5-

"to do a general banking business could still make loans on real estate and collateral security and receive time deposits; and, under date of March 28, 1930, Mr. Heath forwarded a copy of an opinion rendered by the counsel for your Detroit branch in which the counsel for your bank concurred and in which the following views were expressed:

"Trust companies which have not acquired the right to do a general banking business are still making loans on real estate and collateral securities and receiving time deposits and issuing certificates of deposit therefor. The Commissioner of the Banking Department of Michigan is aware of this, and is of the opinion that trust companies which have not acquired general banking powers may continue under the present law to make loans on real estate and securities and to receive time deposits, as they did formerly.'

"In the Board's letter requesting the above information, attention was also called to the fact that it appeared that, under the 1929 legislation, a Michigan State bank whose capital plus its surplus is not less than the capital required for the organization of a State bank plus the capital required for the organization of a trust company in the place in which the bank is located may exercise full trust powers; and, in this connection, the counsel for your Detroit Branch stated as follows:

"We note the query as to the capital requirement under the 1929 General Banking Law for a bank to exercise full trust powers. Under Section 4 of this Act (Act 66, Public Acts of Michigan of 1929), it is required that the capital and surplus of such state bank be not less than the minimum combined capital required by statute for the organization of a bank and a trust company in the city or village where the bank is located. I am of the opinion that if the total of capital and surplus of a Michigan state bank is not less than the total of capital required to organize a state bank plus the capital required to organize a trust company in the place where the bank is located, such bank is eligible for the exercise of full trust powers. The Commissioner of the Banking Department of Michigan is in accord with our construction of this provision.'

"In view of all the circumstances involved, the Board on April 8, 1930, granted the American National Bank of Grand Rapids permission to exercise the remaining trust powers for which it had applied.

"The Board's position with regard to the granting of full trust powers to national banks in Michigan was also stated in its letter to you of April 8, 1935, in connection with the application of the First National Bank of Niles, Niles, Michigan, for

8/29/35

-6-

"permission to act as trustee.

"The Board is not advised of any change in the laws of the State of Michigan which would necessitate a deviation from its previous policy with reference to the granting of trust powers to national banks in that State, and, in view of that fact and the fact that, since 1925, it has granted full trust powers to at least five national banks in that State which had a capital equal to or in excess of the capital required by State law for the organization of a trust company in the same place but less than the capital required of a State bank to exercise full trust powers, the Board sees no reason why it should take a different position at this time because of the opinion of the Assistant Attorney General referred to above.

"The Board understands that, as stated above, the Community National Bank of Pontiac has a capital of \$400,000 and a surplus of \$60,000 and that, for the purpose of organization, a trust company similarly located is required under the State law to have a capital of \$150,000 and a 'surplus equal to twenty per cent of its capital.' The Board is of the opinion, therefore, that the Community National Bank of Pontiac has sufficient capital and surplus to render it eligible to receive permission to exercise full trust powers. In the circumstances, unless, upon a further consideration of the matter, your counsel feels otherwise as to the question of law involved, it is assumed that you will give further consideration to the bank's application, which is returned herewith. You may also wish to consider the matter further with the office of the Attorney General of the State of Michigan, in the light of the Board's position as above explained, and, if so, advice as to any views expressed by that office will be appreciated.

"It is assumed, of course, that in any further consideration of the bank's application, due consideration will be given to the question of the adequacy of the bank's capital in relation to its deposit liabilities and in view of the additional responsibilities and liabilities which would be involved in the conduct of a trust department."

Approved unanimously.

Letter to Honorable Hiram W. Johnson, United States Senate,

reading as follows:

"Reference is made to your recent correspondence regarding the application of the Karth Spray Equipment Company, Los Angeles, for a loan, and to our acknowledgment thereof under date of August 8.

8/29/35

-7-

"We are informed by the Federal Reserve Bank of San Francisco, in response to our inquiry, that an application for an industrial loan under the terms of Section 13b of the Federal Reserve Act was made to the Federal Reserve Bank of San Francisco by the Karth Spray Equipment Company a little over a year ago. Upon receipt of the application the Federal Reserve bank communicated with the applicant's bank, the Security First National Bank of Los Angeles, which, however, declined to participate in the extension of any credit to the applicant. The application was, therefore, considered as one for a direct advance by the Federal Reserve Bank of San Francisco.

"The investigation made by the Reserve bank indicated that the applicant's business was conducted as a partnership and that the partnership consisted of Mr. S. L. Karth, his wife, and his daughter, and that an agreement had never been filed. Mr. Karth appears to have been in his present business since 1924, during which time his affairs have twice been in bankruptcy. His current efforts were started in 1930 under the present title. His sales figures show, according to the Federal Reserve Bank of San Francisco, a decline in volume from \$48,000 in 1930 to \$8,000 in 1933. While his statement showed practically no indebtedness, there appeared to be no tangible security available, the home Mr. Karth mentioned in his letter being already encumbered and any equity in it of doubtful value. Upon full consideration of these circumstances, it appears to have been the opinion of the Industrial Advisory Committee, in which the Federal Reserve Bank of San Francisco concurred, that the loan could not be made on a reasonable and sound basis, as required by law, especially in view of the absence of adequate security to insure its ultimate repayment. The applicant was so informed.

"The Reserve bank also reports that subsequent to notification that his application had been disapproved, Mr. Karth asked for reconsideration, which was granted. During the course of the further investigation, however, it appears that Mr. Karth requested that consideration be deferred since he had obtained some unexpected funds. After several later attempts to learn the applicant's wishes in the matter, the application was considered as withdrawn, and at Mr. Karth's request a copy thereof was returned to him under date of January 2, 1935. According to the Reserve bank, it has had no further communications or requests for credit from Mr. Karth.

"As you know, the Reserve banks have final authority under the law to pass upon the applications submitted to them, and in this case it appears that the Reserve bank gave full and conscientious consideration to Mr. Karth's application. It is regretted that the application could not have received favorable

8/29/35

-8-

"action, but under the circumstances it appears that there is no ground for further action in the matter by the Board."

Approved unanimously.

Memorandum dated August 20, 1935, from Mr. Smead, Chief of the Division of Bank Operations, submitting a statement compiled from replies received from the chairmen of the Federal reserve banks to the Board's letter of September 19, 1934 (X-8012), in regard to the classification of member banks for purposes of electing Class A and B directors. The memorandum read in part as follows:

"Five Federal Reserve banks, Philadelphia, Atlanta, Chicago, St. Louis and Kansas City, recommend that no change be made in the grouping of member banks for electoral purposes although the last two express a willingness to change their plans in accordance with the formula suggested in the Board's letter, X-8012; four banks, Boston, Cleveland, Richmond and Minneapolis, recommend that the groupings in their districts be changed to conform rather closely with the formula; and the remaining three banks, New York, Dallas and San Francisco, recommend changes in the classification of member banks in their districts not in accordance with the formula.

"As regards the five Federal Reserve banks first mentioned above, Philadelphia and Atlanta now have classifications that conform very closely to the formula suggested in the Board's letter X-8012, Chicago and St. Louis have classifications in which a somewhat larger number of banks, in the case of Chicago, and a smaller number, in the case of St. Louis, are placed in Group 3 than would be called for by the formula, and Kansas City has a smaller number of banks in Group 1.

"The Federal Reserve Bank of New York recommends that the present classification of banks in Group 1, which includes all banks having capital and surplus over \$1,999,000, be retained, and that Group 3 be changed from banks with capital and surplus under \$201,000 to include banks with less than \$301,000 capital and surplus. This would result in reducing substantially the number of banks in Group 2, which is undoubtedly too high, and would probably be preferable to a grouping in strict conformity with the formula suggested in the Board's letter, since a comparatively small number of banks would fall in Group 1 under that formula.



8/29/35

-9-

"The Federal Reserve Bank of Dallas proposes to put a somewhat smaller number of banks in Group 1 than would be called for by the formula and a somewhat larger number in Group 3. We believe that the classification recommended by the Federal Reserve Bank of Dallas would be satisfactory.

"The Federal Reserve Bank of San Francisco recommends that Group 1, which according to the formula outlined in the Board's letter would include only 17 banks, shall include all banks with capital and surplus of \$1,000,000 and over, of which there are 35 in that district. The bank also originally recommended that all banks with a capital and surplus of less than \$250,000 be placed in Group 3, but when it was pointed out in our wire of August 19 that this would result in aggregate capital and surplus of banks in Group 3 being in excess of that for banks in Group 2 the bank accepted the suggestion that Group 3 consist of banks with a capital and surplus of \$150,000 and under.

"It is recommended that the Federal Reserve Banks of Philadelphia, Atlanta, Chicago, St. Louis and Kansas City be advised that the Board will not require any change in classification of member banks in their districts at the present time; and that the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Minneapolis, Dallas and San Francisco be advised that the changes in classification recommended by them are approved.

"If the above recommendations are approved, the classification of member banks in each district will be as follows:

CAPITAL AND SURPLUS LIMITS

	<u>Group 1.</u>	<u>Group 2.</u>	<u>Group 3.</u>
Boston	Over \$1,200,000	Over \$300,000 to \$1,200,000	\$300,000 and less
New York	Over \$1,999,000	\$301,000 to \$1,999,000	Less than \$301,000
*Philadelphia	Over \$999,000	\$250,000 to \$999,000	Less than \$250,000
Cleveland	Over \$899,000	\$180,000 to \$899,000	Less than \$180,000
Richmond	Over \$600,000	Over \$150,000 to \$600,000	\$150,000 and less
*Atlanta	Over \$600,000	\$150,000 to \$600,000	Less than \$150,000
*Chicago	Over \$999,000	\$200,000 to \$999,000	Less than \$200,000
*St. Louis	Over \$599,000	\$100,000 to \$599,000	Less than \$100,000
Minneapolis	Over \$300,000	Over \$60,000 to \$300,000	\$60,000 and less
*Kansas City	Over \$499,000	\$75,000 to \$499,000	Less than \$75,000

8/29/35

-10-

"CAPITAL AND SURPLUS LIMITS

	<u>Group 1.</u>	<u>Group 2.</u>	<u>Group 3.</u>
Dallas	Over \$499,000	\$100,000 to \$499,000	Less than \$100,000
San Francisco	Over \$999,000	Over \$150,000 to \$999,000	\$150,000 and less

\*No change in existing classification"

The classifications recommended in the memorandum were unanimously approved and the Secretary was requested to advise the respective Federal reserve banks accordingly.

Letter to The Postmaster General of the United States, reading as follows:

"The Executive Director of The National Emergency Council has drawn to the attention of the Board in a letter dated August 21, 1935, your request that all Government departments withhold from the mails from December 15 to December 24 all bulk mailings of forms, pamphlets, books and other printed matter in order to prevent congestion and to assist in the prompt handling of the Christmas mails. In this connection, the Executive Director requested the Board to advise you directly as to its intention and ability to arrange for the deposit of all bulk mailings either before December 15 or after December 24.

"While it is not possible for the Board to forecast accurately at this time what the situation will be in December, a careful survey has been made and it seems probable that the only bulk mailings which the Board might find it necessary to make during the period in question would consist of two or three mail sacks containing copies of the December Federal Reserve Bulletin. The printing of the Bulletin is ordinarily not completed before the middle of each month and the mailing thereof is handled by the Government Printing Office. However, the Board will be glad to cooperate with your Department to the fullest extent possible."

Approved unanimously.

8/29/35

-11-

Thereupon the meeting adjourned.

Chester Morice  
Secretary.

Approved:

J. J. Thomas  
Vice Chairman.