

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 30, 1935, at 2:30 p. m.

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

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

The Committee acted upon the following matters:

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 September 16, 1935, transmitting the request of The Bank of the Manhattan Company, New York, New York, for a further extension of six months from October 1, 1935, within which the bank may dispose of its holdings of stock of 'The County Trust Company', White Plains, New York, as required by the conditions of membership. In submitting the bank's request you have recommended that the extension applied for be granted and suggest that the Board give consideration to making the extension for a longer period or to waiving the requirement entirely.

"It has been noted that the bank has evidently been active and sincere in its efforts to dispose of the stock and that it is continuing its efforts to effect satisfactory disposition thereof. In view of the circumstances and your recommendation the Board extends to October 1, 1936, the time within which The Bank of the Manhattan Company may dispose of its stock in The County Trust Company, White Plains, New York, as required by the conditions of membership."

Approved unanimously.

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

"Reference is made to the transactions whereby the 'Savings Investment and Trust Company', East Orange, New Jersey, on August 10, 1933, acquired the assets and assumed the deposit liabilities of the East Orange Trust Company, and on September 1, 1933, effected a merger with The Trust Company

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"of Orange, Orange, New Jersey, branches of the Savings Investment and Trust Company being established at the former offices of both the East Orange Trust Company and The Trust Company of Orange.

"The Board has reviewed the information submitted, from which it appears that the transactions have not resulted in any material change in the general character of the assets of, or broadening in the functions exercised by, the Savings Investment and Trust Company, within the meaning of the general condition of membership to which it is subject, and that your counsel is satisfied as to the legal aspects involved. Final action thereon, however, will be withheld awaiting completion of the rehabilitation program now pending.

"With respect to the establishment and operation by the Savings Investment and Trust Company of a branch at the former office of The Trust Company of Orange, effective as of September 1, 1933, the date of the merger, and approval of which was requested by the Savings Investment and Trust Company under date of November 14, 1934, the Board does not feel that it can properly give its approval at this time of the establishment and operation of this 'out-of-town' branch in view of the questionable legality thereof under the applicable provisions of Section 9 of the Federal Reserve Act and Section 5155 of the National Bank Act.

"The analysis of the report of examination of the Savings Investment and Trust Company as of June 10, 1933, showed estimated losses and securities depreciation materially in excess of all capital accounts, as did the report of examination as of April 24, 1934. After completion of the capital readjustment effected as of January 4, 1935, the institution, on the basis of the last preceding examination, apparently had an amount of unimpaired capital materially in excess of the statutory requirements governing the establishment of branches. However, the report of examination as of April 27, 1935, reflected losses and depreciation of \$2,840,000 as against total capital accounts of \$3,492,000, or a net capital of but \$652,000, without giving consideration to \$756,000 of assets classed as doubtful. It appears to be very questionable, therefore, whether the Savings Investment and Trust Company, at any time since the establishment of its Orange branch, has had the amount of unimpaired capital required by the statutes.

"In view of the foregoing the Board is unable at this time to give its approval to the maintenance and operation of the branch in question, and feels that unless the capital of the parent bank can be adequately restored through completion of the pending plan of capital readjustment or otherwise, within a reasonable time, it will be necessary that the operation of

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"the branch in question be discontinued. Further action in the matter, however, will be withheld until the pending rehabilitation program has been brought to a conclusion."

Approved unanimously.

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

"Receipt is acknowledged of Mr. McRae's letter of September 20, 1935, relating to the application of 'Western Massachusetts Investment Associates', Greenfield, Massachusetts, for a voting permit entitling it to vote stock of 'First National Bank & Trust Company of Greenfield', Greenfield, Massachusetts, 'The Crocker National Bank of Turners Falls', Turners Falls, Massachusetts, and 'The Northfield National Bank', Northfield, Massachusetts.

"It is understood that at the time of its 1935 election of directors First National Bank & Trust Company of Greenfield had outstanding 3,000 shares of stock having a par value of \$100 per share and that Western Massachusetts Investment Associates owned more than fifty percent of such stock. Information obtained from the office of the Comptroller of the Currency indicates that 2,645 shares were voted at such election.

"It appears that, subsequently, the bank issued and sold to the Reconstruction Finance Corporation preferred stock in the amount of \$200,000, but it is understood that Western Massachusetts Investment Associates does not now own or control any of such stock and, apparently, the issuance of such stock has no bearing on the present status of the holding company affiliate relationship. It is also understood that since the 1935 election of directors the par value of the bank's common stock has been changed from \$100 per share to \$10 per share and ten shares of stock have been issued in exchange for each share previously outstanding so that there are now 30,000 shares of such stock now outstanding.

"It is understood that on August 9, 1935, the stockholders of Western Massachusetts Investment Associates voted to liquidate that corporation and that, under the plan for liquidation then adopted, the 18,210 shares of the common stock of First National Bank & Trust Company of Greenfield then owned by Western Massachusetts Investment Associates were to be disposed of by selling 2,277 shares and distributing the remainder to the stockholders of Western Massachusetts Investment Associates in exchange for their stock in such corporation.

"It appears that the 2,277 shares have either been sold

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"or underwritten but it is not entirely clear that Western Massachusetts Investment Associates does not now own or control a portion of such stock. It is understood that as of September 20, 1935, all except 3,378 of the other shares had been distributed to stockholders of Western Massachusetts Investment Associates and that Western Massachusetts Investment Associates does not now own or control more than 3,378 shares plus possibly some of the 2,277 shares set aside for sale.

"On the basis of these facts, the Board is of the opinion that the holding company affiliate relationship between Western Massachusetts Investment Associates and First National Bank & Trust Company of Greenfield has been terminated. It is understood that The Crocker National Bank of Turners Falls and The Northfield National Bank have been previously placed in liquidation and have ceased to be members of the Federal Reserve System, thus terminating the holding company affiliate relationships with respect to such banks. Accordingly, in the absence of advice from you concerning other facts which you believe should be considered by the Board in this connection, the Board will give no further consideration to the application of Western Massachusetts Investment Associates for a voting permit."

Approved unanimously.

Letter to Mr. A. E. Demaray, Acting Director of the National Park Service, prepared in accordance with the action taken at the meeting of the Executive Committee on September 28, 1935, and reading as follows:

"The Board of Governors of the Federal Reserve System has noted your letter of September 26, 1935, with which you inclosed a copy of a memorandum from the Executive Director of the National Emergency Council confirming the understanding that he will have no further need for space in the Munitions Building after November 20, 1935, and in which you stated that it is the purpose of the Division of Government Space Control to move the activities of the Federal Trade Commission, now housed in Temporary Building No. 5, to the released space in the Munitions Building and other space.

"It is understood from your letter that the arrangements referred to therein will result in the complete evacuation of Temporary Building No. 5 not later than November 20, 1935, so that the Board may proceed under its contract with the demolition of the building.

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"Mr. Walker's memorandum states that he will have no further need for the space in the Munitions Building 'after a period not to exceed sixty days'. It appears from this that there is a possibility that the space referred to may be made available before the expiration of sixty days from September 20 and, as the Board is very anxious to commence the demolition of the temporary building as soon as possible, it will be appreciated if you will advise, as soon as any further information is obtained by you, as to the possibility of the building being made available before November 20."

Approved unanimously.

Letter to the Washington Building Realty Corporation, Washington, D. C., reading as follows:

"Confirming our conversation of today, the lease entered into on the 23rd day of January, 1935, between your corporation and the Board of Governors of the Federal Reserve System (formerly known as the Federal Reserve Board) for certain office space on the third floor of the Washington Building for a rental at the annual rate of \$1,181.64, is terminated as of the close of September 30, 1935, pursuant to the terms of that lease."

Approved unanimously.

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

"Inclosed herewith is a copy of a letter of September 24, 1935, addressed to the Board by The First National Bank, Dolgeville, New York, with reference to the bank's publication of reports of Julius Breckwoldt & Son, Inc.

"It would appear to be somewhat doubtful whether Julius Breckwoldt & Son, Inc. is a holding company affiliate of the bank but the Board is not in a position to rule upon the matter in the absence of complete information concerning whether that corporation in fact owns or controls the stock which its officers and stockholders hold of the bank. The bank has been advised that its letter has been referred to you and it is requested that you communicate with it, making such further investigation as may be necessary. If, upon such investigation, you believe it desirable for the Board to give further consideration to the matter, it will be glad to do so upon receipt of complete information.

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"The bank apparently has in mind the provision of section 2(c) of the Banking Act of 1933, as amended, relating to organizations engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. However, a determination of this question apparently is not in order unless Julius Breckwoldt & Son, Inc. is now a holding company affiliate of the bank. If it should develop that such is the case and such a determination by the Board is desired, the matter should be submitted in accordance with the procedure outlined in the Board's telegram of September 16, 1935 (Trans. 2305).

"It may be noted that it appears that Julius Breckwoldt & Son, Inc. probably is an affiliate of the bank under the provisions of section 2(b) of the Banking Act of 1933. That, of course, is a question to be determined by the Comptroller of the Currency and the waiver of reports of an affiliate of the bank would be governed by the rules of that office. However, it is suggested that you call this matter to the attention of the bank."

Approved unanimously.

Letter to Mr. Douglas Curry, New York, New York, reading as follows:

"Reference is made to your letter of September 6, to the President, regarding the rejection by the Federal Reserve Bank of New York of your application for a loan under the terms of Section 13b of the Federal Reserve Act.

"We are informed by the Federal Reserve Bank of New York, in response to our request for information, that your two applications, one filed in August, 1934, for \$4,500, and one filed in July, 1935, for \$5,000, were rejected for the reason that the security offered was not readily salable or easily valued; that the loan was not warranted by the financial statement and record of operations; that the earnings record submitted did not give assurance that the loan could be repaid from earnings within a reasonable time; and that, accordingly, it did not appear that the loan could be made on a reasonable and sound basis, as Section 13b of the Federal Reserve Act requires.

"We regret that favorable action could not be taken on your applications, but since they were given careful consideration by the Industrial Advisory Committee and the Federal Reserve Bank of New York, and since they concurred in the con-

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"clusion that the applications could not be approved, there appears to be no basis for further action by the Board in the matter.

"It is noted that you speak of the distribution of public favors in commenting on the unfavorable action on your applications. It should be borne in mind in this connection that the law authorizes the Federal Reserve banks to make loans only on a reasonable and sound basis, and that they have no choice but to disapprove those loans which in their judgment fail to satisfy the requirements of the law."

Approved unanimously.

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

"Receipt is acknowledged of your letter of August 21, 1935, in which you suggested that it would be desirable at this time for an active campaign to be undertaken to obtain applications from nonmember banks for admission to membership in the Federal Reserve System.

"It is the view of the Board that the Federal Reserve banks should at all times keep in touch with eligible nonmember banks and call to the attention of such banks, whenever practicable, the desirability of applying for admission to membership in the System, and it has been the Board's understanding that it is the general practice of the Federal Reserve banks to contact eligible nonmember banks from time to time with a view to obtaining their applications for membership. In this connection, as you will recall, the Board, in 1934, approved a pamphlet on the Federal Reserve System prepared by a committee of the Federal Reserve Agents' Conference which, among other things, described the advantages and privileges of membership. Also, in a letter of January 16, 1935, addressed to the Governor of the Federal Reserve Bank of Chicago, a copy of which was forwarded to all of the Federal Reserve Agents on January 21, 1935 (X-9100), the Board suggested that, in contacting nonmember banks, the representatives of the Federal Reserve banks should, among other things, discuss membership in the Federal Reserve System. The Board further feels, as you suggested, that in view of the passage of the Banking Act of 1935, it would be desirable to make special efforts at this time to contact eligible nonmember banks with a view to obtaining their applications for admission to membership. Contacts with such banks by representatives of the Federal Reserve bank in person, or where this is not practicable by correspondence, would seem to be the most desirable means at

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"this time of bringing the matter to their attention.

"As you know, section 202 of the Banking Act of 1935, as passed by the House of Representatives, would have authorized the Board, in the case of banks which had been admitted to the benefits of insurance, to waive in whole or in part the eligibility requirements for the admission of such banks to membership in the Federal Reserve System. However, section 202 of the Banking Act of 1935, as finally enacted, limits the right of the Board to waive eligibility requirements for admission to membership in the System to those banks which are required, under subsection (y) of section 12B of the Federal Reserve Act, to become members of the Federal Reserve System in order to be insured banks or continue to have any part of their deposits insured under section 12B. Subsection (y) provides that, with certain specified exceptions, no State bank which 'during the calendar year 1941 or any succeeding calendar year shall have average deposits of \$1,000,000 or more' shall be an insured bank or continue to have any part of its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits, unless such bank shall be a member of the Federal Reserve System. In view of these provisions of subsection (y), it cannot be determined prior to the end of 1941 whether any specific bank must be admitted to membership in the Federal Reserve System in order to be an insured bank or to continue to have any part of its deposits insured. Therefore, it is the view of the Board that it is not authorized, under the provisions of section 202 of the Banking Act of 1935, to waive eligibility requirements for admission to membership until the end of the year 1941. However, in the case of any bank which will apparently require the waiver of certain eligibility requirements in order to become a member of the System and retain its deposit insurance after July 1, 1942, there would be no objection to such bank filing its application for membership prior to the end of the year 1941 in order that consideration may be given to all of the facts involved and its admission to membership be expedited in so far as practicable after the end of the year 1941.

"Your attention is called to the following provisions contained in section 345 of the Banking Act of 1935 relating to the factors which, under certain circumstances, are to be taken into consideration in determining whether the capital of a bank is impaired:

'Sec. 345. If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall

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"be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto. * * *"

"You will observe that under the provisions of section 345, above quoted, certain banks which may have heretofore been ineligible for admission to membership in the Federal Reserve System because of an impairment in their capital stock may now be eligible for admission."

Approved unanimously, together with a letter to all Federal reserve agents inclosing a copy of the letter to Mr. Stevens.

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. 2.</u>		
The Hillsdale National Bank, Hillsdale, New Jersey	3	
The Wallkill National Bank, Wallkill, New York	<u>9</u>	12
<u>District No. 9.</u>		
The First National Bank of Buhl, Buhl, Minnesota	1	
The First National Bank of Cokato, Cokato, Minnesota	1	
First National Bank and Trust Company of Minneapolis, Minneapolis, Minnesota	600	602
	<u>Total</u>	<u>614</u>
<u>Application for SURRENDER of Stock:</u>		
<u>District No. 10.</u>		
The Home National Bank of Longton, Longton, Kansas	18	18

Approved unanimously.

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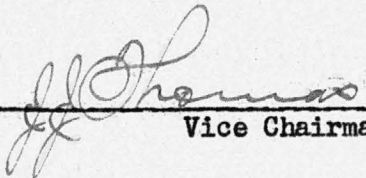
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Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.