

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 15, 1935, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Hamlin
Mr. Miller
Mr. James

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

The Committee acted upon the following matters:

Letter to Governor Fleming of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board approves the recommendation contained in Mr. Taylor's letter of October 7 that the temporary assignment of Mr. Sylvester W. Seigworth to the position of Security Clerk, Fiscal Agency Function, at an annual salary of \$2,500, which is \$100 in excess of the maximum salary provided for this position, be continued for an additional four months from September 1, 1935."

Approved unanimously.

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

"In view of the statements contained in your letter of October 7, the Board approves the temporary appointment, until December 31, 1935, of Mrs. Genevieve M. Barnett as Acting Assistant Federal Reserve Agent to act during your absence only. Mrs. Barnett should execute the usual form of oath of office and surety bond in the amount of \$50,000, and she should not enter upon performance of her duties as Acting Assistant Federal Reserve Agent until you have received advice of the Board's approval of the bond. The bond should be examined by your counsel before it is forwarded to the Board to determine whether the execution complies fully with the rules printed on the reverse side of bond form 182."

Approved unanimously.

10/15/35

-2-

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

"Referring Kettig's October 11 telegram and your letter of same date, Board interposes no objection to designation of J. M. Hartsough as Acting Assistant Auditor although specific approval of Board not required."

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 report of examination of the 'Linden Trust Company', Linden, New Jersey, as of March 12, 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 \$190,300 which amounts to 6.8% of deposits, aggregating \$2,798,800. Of the losses estimated by the examiner at \$104,000, exclusive of securities depreciation, \$67,000 arose in the note receivable from the Linden National Bank, in liquidation, against which the trust company wishes to set up reserves rather than to effect charge-offs, feeling that the latter action might impair the right of assessment against the stockholders of the Linden National Bank. Other estimated losses in loans amounted to \$36,500, net depreciation in securities amounted to \$41,600 and assets classed as doubtful amounted to \$27,900, which include \$26,500 arising in the note of the Linden National Bank and \$1,400 arising in other loans.

"It has been noted that the trust company advised you in a letter dated May 9, 1935, that all conceded and determined losses would be charged off on June 30, 1935, but the report of earnings and dividends submitted as of June 29, 1935, indicates charge-offs for the six months' period amounting to only \$14,700, and the report of condition submitted as of the same date shows reserves for contingencies amounting to only \$50,700, of which \$44,000 is described as a reserve for depreciation in securities. It thus appears that the losses conceded or determined by the trust company are much less than the examiner's estimate and that the provisions for such losses, as well as the proposed reserve against loss in the note of the Linden National Bank, may be inadequate.

10/15/35

-3-

"As you know, the Reconstruction Finance Corporation made a commitment to the trust company to purchase from it \$100,000 of its preferred stock, but the trust company was not disposed to avail itself of the opportunity for strengthening its capital and accordingly the commitment was cancelled on May 21, 1935. In this connection, the trust company referred to its liquid position, (cash, due from banks and high grade securities amounting to approximately 47% of deposits), no investment in bank building, the conservatism of its management and the fact that the major portion of its assets subject to criticism was acquired when the Linden National Bank was absorbed in 1931 as an emergency measure, which absorption was claimed to have been made at the insistence of the supervisory authorities. The trust company also did not feel that the funds arising from additional capital could be invested advantageously at the present time or that it should assume the burden of such additional capital. Nevertheless, the excerpt from the minutes of the meeting of the board of directors on May 7, 1935, a copy of which was furnished with Mr. Gidney's letter of June 5, 1935, contains the statement that the board recognizes that an increase in capital will become imperative in the near future but is of the opinion that such capital increase can be handled locally.

"The Board has noted the consistent position taken by your office, in correspondence with the trust company, relative to the importance of making provision for and maintaining a proper ratio of sound capital to deposit liability, and concurs in the opinion expressed that the trust company should give primary consideration to the matter of providing adequate protection to the interest of the depositors, and should make proper provisions for the elimination of losses. It will be appreciated if you will continue to give these matters your attention and advise the Board of any action taken by the trust company in connection therewith."

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 October 5, 1935, with inclosure, regarding compliance by the 'Springfield Marine Bank', Springfield, Illinois, with the condition of membership to the effect that if trust funds held by the bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit securi-

10/15/35

-4-

"ties with its trust department to secure the payment of such funds.

"The Board is pleased to note that the bank has taken appropriate steps to comply with the condition of membership referred to above."

Approved unanimously.

Letter to Mr. John White Trimble, Mt. Sterling, Kentucky, reading as follows:

"This refers to your letter of August 13, 1935, addressed to the Department of Justice, and asking whether there is any recent statute which forbids a broker to pay interest on money held by him for a customer. Your letter has been referred, through the Securities and Exchange Commission, to the Board of Governors of the Federal Reserve System for reply.

"The Board knows of no Federal statute which specifically forbids a broker from paying interest on money which he holds, for a customer. However, section 21 of the Banking Act of 1933 forbids certain persons to engage in the business of receiving deposits, and it may be that some brokers interpret this statute as forbidding them to pay interest on funds held by them for customers. The statute is a criminal one and does not authorize the Board to issue any regulations or exercise any discretion in the matter and, therefore, the Board does not feel that it would be appropriate for it to express any opinion as to its interpretation. However, for your information there is inclosed a copy of the provisions in question, as amended by the Banking Act of 1935."

Approved unanimously.

Letter to Governor Seay of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of October 2, 1935, in which you ask to be advised whether the Board considers that the service of Mr. Charles E. Rieman, a member of the Board of Directors of the Federal Reserve Bank of Richmond, as a member of the advisory Banking Board of the State of Maryland would be in violation of the Board's resolution of December 23, 1915, forbidding directors of Federal reserve banks to hold political or public office.

"Although the question is not entirely free from doubt, the Board is not disposed at this time to raise an objection to

10/15/35

-5-

"Mr. Rieman's continuing to serve as a director of your bank and serving at the same time as a member of the State advisory Banking Board."

Approved unanimously.

Memorandum dated October 11, 1935, from Mr. Owens, Assistant Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin a statement, in the form attached to the memorandum, with respect to the Board's recent ruling regarding the rate at which advances may be made under the provisions of section 10(b) of the Federal Reserve Act, as amended by section 204 of the Banking Act of 1935.

Approved unanimously.

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

"Your letter October 11. Board notes without objection that it is planned to hold next regular meeting of board of directors of Federal Reserve Bank of Atlanta at your New Orleans branch."

Approved unanimously.

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

"This refers to Mr. Dillistin's letter dated October 8, 1935, with which was inclosed a copy of a letter dated September 27, 1935, from the Scarsdale National Bank and Trust Company, Scarsdale, New York, and a copy of Mr. Gidney's reply thereto dated October 4, 1935, regarding the interpretation of section 24 of the Federal Reserve Act, as amended by section 208 of the Banking Act of 1935.

"In view of the fact that Mr. Gidney suggested to the Scarsdale National Bank and Trust Company that its inquiry should be addressed to the Comptroller of the Currency, it appears that no action by the Board is necessary at this time. However, your letter bringing this matter to the

10/15/35

-6-

"Board's attention is appreciated."

Approved unanimously.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of October 4 stating that in order to avoid breaking the Federal Reserve Examiners' seal on a vault containing over \$82,000,000 of Federal Reserve notes, including \$5,000,000 of five dollar notes, it is proposed to issue five dollar Federal Reserve notes bearing serial numbers subsequent to those borne by the \$5,000,000 of five dollar notes under seal.

"The Board sees no objection to this procedure, with the understanding that the \$5,000,000 of five dollar notes now under the Examiners' seal will be removed from the vault in which they are now stored at the next examination of the Federal Reserve bank by the Board's examiners and that subsequent issues of Federal Reserve notes will, so far as practicable, be in the order of their serial numbers."

Approved unanimously.

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

"Reference is made to the Clayton Act application of Mr. E. W. Newman, Woodstock, Virginia, for permission to serve at the same time as director and officer of The Shenandoah National Bank of Woodstock and Shenandoah Valley Loan and Trust Company, both of Woodstock, Virginia, and as director and officer of Peoples Bank, Mount Jackson, Virginia; and to the Board's letter of April 23, 1935, to you relative thereto.

"In its letter the Board stated that although The Shenandoah National Bank of Woodstock had been placed in voluntary liquidation, it had been noted that Mr. Newman was also serving as an officer of Shenandoah County National Farm Loan Association which it appeared might be a 'bank organized or operating under the laws of the United States' within the meaning of the Clayton Act, with the result that that Act would be applicable to Mr. Newman's services to that association and to the State banks involved in his application, provided such banks made loans secured by stock or bond collateral. You were further advised, however, that since

10/15/35

-7-

"there were pending in Congress proposed amendments to the Clayton Act which would make it inapplicable to such relationships, the Board had decided not to take further action in connection with Mr. Newman's application until it could be definitely ascertained whether the proposed amendments would be enacted.

"As you know, Section 8 of the Clayton Act was amended by Section 329 of the Banking Act of 1935, and the provisions of the Act, as amended, are applicable only to persons who are private bankers or directors, officers or employees of member banks of the Federal Reserve System. Therefore, since Mr. Newman is not a private banker, the two State banks involved in his application are not members of the Federal Reserve System and the national bank has been placed in voluntary liquidation, the relationships covered by his application are not prohibited by the provisions of Section 8.

"It is suggested that, if you have not already done so, you advise Mr. Newman accordingly."

Approved unanimously.

Letter to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to the Clayton Act application of Mr. Larry D. Jones, Louisville, Kentucky, for permission to serve at the same time as officer of Federal Intermediate Credit Bank of Louisville, Louisville, Kentucky, and as director of Monticello Banking Company, Monticello, Kentucky; and to the Board's letter of April 25, 1935, advising that it had decided to defer action in connection with this application until it could be definitely ascertained whether amendments to the Clayton Act contained in the Banking Act of 1935 would be enacted at the recent session of Congress.

"As you know, Section 8 of the Clayton Act was amended by Section 329 of the Banking Act of 1935, and the provisions of the Act, as amended, are applicable only to a person who is a 'private banker or director, officer or employee of any member bank of the Federal Reserve System or any branch thereof . . .' Therefore, since Mr. Jones does not appear to be a private banker and neither of the institutions involved in his application is a member of the Federal Reserve System, the relationships covered by Mr. Jones' application apparently are not prohibited by the provisions of Section 8.

"If, in the light of your knowledge of the facts existing in this case, this conclusion is correct, it is

10/15/35

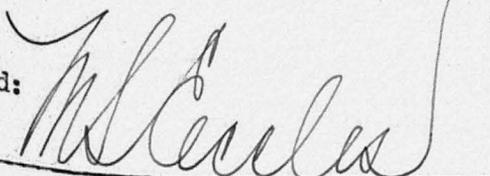
-8-

"suggested that you advise Mr. Jones accordingly if you have not already done so."

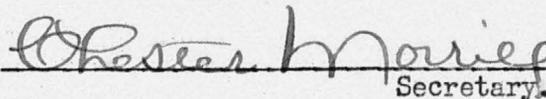
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



Chairman.



Secretary.