

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, October 19, 1935, at 12:00 o'clock noon.

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

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

The Board acted upon the following matters:

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

"In connection with its consideration of the application of 'Merchants Corporation', Bangor, Maine, for a voting permit entitling it to vote the stock which it owns or controls of 'The Merchants National Bank of Bangor', Bangor, Maine, the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be reconsidered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection, it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved, together with a letter to the "Merchants Corporation", Bangor, Maine, reading as follows:

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"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns or controls of 'The Merchants National Bank of Bangor', Bangor, Maine.

"The Board understands that your corporation was organized in 1934 by stockholders of The Merchants National Bank of Bangor in order to obtain necessary additional capital for the bank; that the common stock of your corporation was exchanged share for share for 2,000 shares of the then outstanding stock of the bank; that your corporation sold collateral trust debentures in the amount of \$400,000 and with the proceeds thereof purchased 4,000 shares of new stock issued by the bank; that all of the stock of the bank owned by your corporation is pledged to secure the collateral trust debentures; that your corporation now owns 6,000 of the 10,000 outstanding shares of stock of The Merchants National Bank of Bangor but does not own or control any other bank stock and does not own any other assets except a small amount of cash; that your corporation was not organized and is not operated for the purpose of managing or controlling The Merchants National Bank of Bangor and your corporation does not hold the stock of such bank for that purpose; and that your corporation now exists solely as an incident to the rehabilitation of The Merchants National Bank of Bangor.

"As you perhaps know, section 301 of the Banking Act of 1935 amended section 2(c) of the Banking Act of 1933, defining the term holding company affiliate, by adding thereto the following paragraph:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"In view of the above facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of the above quoted statutory provisions, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for your corporation to obtain a voting permit in order to vote the stock which it owns or controls of The Merchants National Bank of Bangor and, on this basis, the Board will give no further consideration to

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"your application for such a permit.

"If, however, your corporation acquires control over any other bank, or the purpose for which your corporation operates, the purpose for which it holds the stock of the subsidiary bank, the nature of its assets, or the character of the functions which it performs should at any time differ from the description thereof contained in this letter to an extent which would indicate that it might be engaged as a business in holding the stock of, or managing or controlling banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

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

"In connection with its consideration of the application of 'Geneva Shareholders, Inc.', Geneva, New York, for a voting permit entitling it to vote the stock which it owns or controls of 'The National Bank of Geneva', Geneva, New York, the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be reconsidered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved, together with a letter  
to the 'Geneva Shareholders, Inc.',  
Geneva, New York, reading as follows:

"This refers to the application of your corporation for a

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"voting permit entitling it to vote the stock which it owns or controls of 'The National Bank of Geneva', Geneva, New York.

"The Board understands that your corporation was organized in 1932 by stockholders of The National Bank of Geneva in order to provide necessary capital funds for such bank; that your corporation exchanged its common stock, share for share, for stock of The National Bank of Geneva, acquiring substantially all of the then outstanding stock of the bank in this manner; that your corporation sold preferred stock in the amount of \$300,000, using a portion of the proceeds thereof to purchase criticized loans from The National Bank of Geneva and contributing the balance to the bank; that in 1934, in connection with a necessary readjustment of the capital structure of The National Bank of Geneva, your corporation purchased 1,500 shares of Class B preferred stock issued by the bank, borrowing the purchase price thereof from the Reconstruction Finance Corporation; that your corporation owns all of the Class B preferred stock and substantially all of the common stock of the National Bank of Geneva but does not own or control any other bank stock; that your corporation has a relatively small amount of assets other than bank stock, such assets consisting of cash, criticized loans purchased from the bank, and a contract account arising out of an agreement to sell a few shares of the stock of the bank; that your corporation was not organized and is not operated for the purpose of managing or controlling The National Bank of Geneva and that your corporation does not hold the stock of that bank for such purpose; and that your corporation now exists merely as an incident to the rehabilitation of The National Bank of Geneva.

"As you perhaps know, section 301 of the Banking Act of 1935 amended section 2(c) of the Banking Act of 1933, defining the term holding company affiliate, by adding thereto the following paragraph:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"In view of the above facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a

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"business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of the above quoted statutory provisions, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for your corporation to obtain a voting permit in order to vote the stock which it owns or controls of The National Bank of Geneva and, on this basis, the Board will give no further consideration to your application for such a permit.

"If, however, your corporation acquires control over any other bank, or the purpose for which your corporation operates, the purpose for which it holds the stock of the subsidiary bank, the nature of its assets, or the character of the functions which it performs should at any time differ from the description thereof contained in this letter to an extent which would indicate that it might be engaged as a business in holding the stock of, or managing or controlling banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

Letter to Mr. Thomas E. Kilby, President, Kilby Car and Foundry Company, Anniston, Alabama, reading as follows:

"Receipt is acknowledged of your two letters of October 12, 1935.

"As you know, a Federal reserve bank has final authority to pass upon applications for industrial loans submitted to it and in reviewing any particular case the Board only undertakes to determine whether or not the reserve bank has given the application proper consideration. Your statements to the Board and the letters sent to you by the Federal reserve bank in explanation of its position have been carefully considered and the Board finds no basis upon which it might take action in the matter.

"In your first letter of the 12th you state that the bank originally offered as an objection to the loan the unmarketability of the collateral; that when you answered that objection completely the bank then said that your earnings did not justify the loan; and that when this objection in turn had been satisfied the bank finally raised the question of your having installed an electric furnace, and by this action having diverted the proceeds of the loan into a capital investment. A study of the correspondence does not indicate, however, that the bank at any time accepted as conclusive your

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"representations as to the marketability of the collateral offered or as to the earnings record of your company, and that instead of offering one explanation at a time the bank viewed the situation as a whole and maintained its position consistently. It is not apparent that the reference in Mr. Newton's letter of August 9 to the installation of the electric furnace was to be taken as more than an illustration of the bank's contention that the financial condition of your company was not such as to require merely a replenishment of its working capital.

"It is evident that your own judgment of the value of the collateral offered and of your business prospects differs radically from that of the bank. However, credit analyses and the other aspects of loaning operations are functions which properly belong to the reserve bank and, as previously indicated, the bank's decision in such matters is final. Moreover, the Board is satisfied that the reserve bank has not disregarded any of the considerations you have urged.

"In your second letter of October 12 you say that one member of the Industrial Advisory Committee is an official of one of your direct competitors and it is to be presumed that the Executive Committee must have been guided largely, if not entirely, by the recommendation of the Advisory Committee. This presumption is not well founded. The Executive Committee of the bank considers loan applications thoroughly and independently and is not bound in any way by the recommendation of the Advisory Committee.

"The Board is glad to look into any complaint pertaining to the industrial loan activities of a Federal reserve bank but, when it has satisfied itself that a reserve bank has exercised its discretion in good faith after giving careful consideration to all of the facts and circumstances involved, it has refrained as a matter of policy from making suggestions to the reserve banks as to the course of action to be followed."

Approved unanimously.

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

"Receipt is acknowledged of your letter of October 2, 1935, concerning The Goodyear State Bank, Akron, Ohio, and its relationship with The Goodyear Tire & Rubber Company, Akron, Ohio, which owns or controls a majority of the bank's stock.

"It is understood that the chief obstacle in the way of The Goodyear State Bank applying for membership in the Federal

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"Reserve System is that the bank feels that it is impracticable for it to comply with the provisions of section 23A of the Federal Reserve Act in accepting stock, bonds, debentures or other obligations of The Goodyear Tire & Rubber Company as collateral security for loans. The Board does not have any authority to exempt a member bank from compliance with the provisions of section 23A of the Federal Reserve Act and, as you have informed The Goodyear State Bank, a determination by the Board that The Goodyear Tire & Rubber Company is not engaged, directly or indirectly, as a business in holding the stock of banks, banking associations, savings banks, or trust companies, would not affect the status of that corporation as a holding company affiliate of that bank for the purposes of section 23A of the Federal Reserve Act upon the admission of the bank to membership.

"In view of the foregoing, it is not clear that a determination by the Board as to whether The Goodyear Tire & Rubber Company is engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, is desired at this time. In this connection it is noted that apparently The Goodyear Tire & Rubber Company, Inc. is also a holding company affiliate of The Goodyear State Bank and if a like determination in connection with that corporation is desired, the Board should be furnished with a current financial statement of that corporation and a statement concerning the functions which it performs and the purpose for which it operates. In the circumstances, the Board will take no action in this matter unless, after you advise it concerning the Board's views regarding section 23A of the Federal Reserve Act, the bank still desires that the Board make the above mentioned determination in connection with its holding company affiliates."

Approved unanimously.

Letter to Honorable John J. Cochran, Chairman, Committee on Expenditures in the Executive Departments, House of Representatives, reading as follows:

"Replying to your letter of October 7th, as further interpreted by your letter of October 15th, I desire to advise you that at the present time the Board of Governors of the Federal Reserve System does not feel that it would be appropriate for the Board or any members thereof, to make suggestions respecting other Government departments in response to the resolution of the Committee on Expendi-

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"tures in the Executive Departments, as set forth in your letter. As you know, under the Banking Act of 1935, the Board of Governors of the Federal Reserve System is to be reorganized as of February 1, 1936."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Mowbray  
Secretary.

Approved:

J. P. Thomas  
Vice Chairman.