

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 6, 1935, at 11:10

a. m.

PRESENT: Mr. Eccles, Chairman
 Mr. Hamlin
 Mr. Miller
 Mr. James
 Mr. Szymczak
 Mr. O'Connor (first part of meeting)

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Goldenweiser, Director of the Division
 of Research and Statistics

The Chairman stated that he had received from Mr. Burgess, Secretary of the Federal Open Market Committee, as inclosures with a letter dated November 4, 1935, final drafts of the resolution and motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1935, as follows:

"RESOLUTION ADOPTED BY FEDERAL OPEN MARKET COMMITTEE, OCTOBER 23, 1935

"The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

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"But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the Reserve System as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion of credit, but rather to put the System in a better position to act effectively in the event that credit expansion should go too far.

"Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of short-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

"While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the reserve banks, nevertheless, there are two risks in this method. First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

"There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

"In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of

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"advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

"Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

"In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies."

"ACTION TAKEN BY FEDERAL OPEN MARKET COMMITTEE
OCTOBER 23, 1935, WITH RESPECT TO OPERATIONS IN
THE SYSTEM SPECIAL INVESTMENT ACCOUNT

"After a brief discussion of the authority which it was necessary to give the executive committee in order to replace maturities from time to time in the System Account, and in order to make shifts in maturities to meet changing market conditions, it was unanimously

VOTED that superseding previous authorizations, the executive committee be authorized to make shifts between maturities of government securities up to \$300,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$500,000,000.

"After discussion as to further authority which should be given to the executive committee in order to keep the committee in a position to act promptly if any occasion for action arose due to causes not now foreseen, it was

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System."

Mr. James suggested that the motion authorizing the purchase or sale of securities undoubtedly contemplated also the authority to allow maturities to run off, and that any approval by the Board should cover this point clearly.

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The suggestion was also made that, if the Board approved the authority granted to the executive committee to make shifts in maturities of securities in the system account, such approval should be coupled with a reservation of the right in the Board to reconsider the matter at any time in the light of the situation then existing.

The Chairman pointed out that the principal reason given for the adoption by the Federal Open Market Committee of the motion authorizing the purchase or sale of Government securities was to put the committee in a position to take action to offset any disturbing effects that might arise should the Board decide to increase the requirements as to the reserves of member banks. In this connection some of the members expressed the opinion that action on the motion of the Federal Open Market Committee authorizing the purchase or sale of securities might well be deferred until the Board decided what action should be taken on the question of increasing reserve requirements.

In connection with the resolution relating to shifts in maturities attention was directed to the distribution of maturities in the system's investment account as of October 16, 1935, and a chart was exhibited by Dr. Goldenweiser showing this information. A number of members of the Board commented that the present distribution of maturities of securities is very satisfactory.

The Chairman referred to a memorandum dated November 1, 1935, from Mr. Smead, Chief of the Division of Bank Operations, which

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contained a tabulation showing the distribution by Federal reserve districts and by central reserve city banks, reserve city banks and country banks of average daily excess reserves during the month of September which amounted to approximately \$2,628,000,000. The memorandum also contained a summary of the reserve position of all member banks as of June 29, 1935, the date of the last call report, and showed that out of 6,410 member banks only 897 would have to increase their deposit balances at the Federal reserve banks if reserve requirements were increased 25% and that the additional amount that they would have to provide would be \$99,000,000. It was pointed out that of these 897 banks all but 45 had balances with correspondent banks sufficient to provide the additional reserves, and one of the members of the Board called attention to the fact that these banks represented less than 1% of the total of 6,410 member banks. The memorandum further showed that, if reserve requirements were increased 50%, 2,041 banks would have to provide \$328,000,000 of additional reserves at the Federal reserve banks, and that of these 2,041 banks all but 125 had balances with correspondent banks sufficient to enable them to meet such increased requirement. In this connection it was pointed out in the memorandum that member banks in reserve cities and country banks presumably would draw on their city correspondents for additional reserves required to be deposited with Federal reserve banks and that if this were done most of the withdrawals would be made from member banks in large financial centers, particularly New York; that the total amount which

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would be withdrawn from New York, even if reserve requirements were increased 50%, would not be sufficient to bring about a drain of funds which the New York banks could not meet easily; and that the amount of funds which might be withdrawn from New York to meet such an increase in reserve requirements would be small compared with the huge volume of excess reserves now held by New York city banks in the aggregate.

Mr. James pointed out the possibility, that if reserve requirements were raised, some member banks, even though able to meet the requirements at the present time, might take the position that they should have some margin of excess reserves and therefore that they might adopt a less liberal lending policy.

Mr. Miller inquired whether the bank balances held by member banks in the large centers were greater at the present time than would be expected under normal money market conditions and it was stated that such balances were probably between \$200,000,000 and \$300,000,000 higher than what might be considered to be normal, and that if reserve requirements were increased 25% the withdrawal of balances for deposit with the Federal reserve banks as additional reserves should not result in any disturbance.

The Chairman then presented memoranda setting forth various reasons for and against increasing reserve requirements, as follows:

"REASONS FOR RAISING RESERVE REQUIREMENTS AT THIS TIME

"Arguments for immediate action

"1. Member bank reserves at the present time are

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"\$3,000,000,000 in excess of legal requirements. Further increases in excess reserves through gold imports, silver purchases, and through the ultimate use of the gold in the Stabilization Fund may be expected. Demand deposits of member banks are now higher than they ever were and they can be more than doubled on the basis of existing reserves. This would be injurious credit expansion. It will be necessary at some time to use the Board's powers for absorbing excess reserves. It is, therefore, not a question of whether or not the Federal Reserve System will have to act, but merely a question of the best timing of the action.

"2. It would seem best to take measures for absorbing at least a portion of existing excess reserves before the banks have had an opportunity to expand their activities on the basis of these reserves. The banks are being urged by the Government actively to seek opportunities for extending additional credit and thereby to facilitate recovery. To let them proceed and later, when many of them may no longer have excess reserves, to put them in debt by increasing requirements or selling securities may lay the System open to the charge of inconsistency. Action at such a time, furthermore, might cause banks to liquidate loans or investments and might start a deflationary movement. Early action would avoid these difficulties.

"3. Gradual advances in reserve requirements started at this time when reserves are ample would be less likely to result in losing members from the Federal Reserve System than would drastic action at a later date.

"4. Banks are now in such a position that an advance in reserve requirements would not inconvenience them and would not act as a restraint on business recovery.

"5. Action at the present time may have a good psychological effect, indicating that the System is alert to the situation and prepared to take the necessary steps to avoid inflation.

"Arguments for raising requirements

"6. The preceding arguments would apply equally to selling securities and to raising reserve requirements but raising reserve requirements would have the advantage of making use of a new method which was not available prior to the passage of the Banking Act of 1935. Previously reserves could not be advanced, except by the declaration of an emergency and with approval of the President. The use of this method now enables the System to say that it could not have acted sooner because of lack of authority.

"7. Raising reserve requirements would have the additional advantage over selling Government securities that

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"it would not have any unfavorable effect on the market for these securities.

"8. It would also have the advantage of not diminishing the earning assets of the Federal Reserve banks, which may become a serious matter if these banks should be put in a position where they would have to go to Congress for appropriations.

"9. It may be a good general policy to use changes in reserve requirements as a method of readjusting the banking position to new conditions, such as the present unprecedented reserves, and to use the traditional methods of open market operations and discount rates as the instruments for direct influence on expansion or contraction of credit.

"By raising reserve requirements gradually to a point where excess reserves would not be very large, the Reserve banks would be placed in a position to use open-market sales, which are more flexible, to counteract inflationary tendencies."

"REASONS AGAINST RAISING RESERVE REQUIREMENTS AT THIS TIME

"1. There is at this time no indication of an expansion of credit and, therefore, no real occasion for taking any action of a restraining character.

"2. Federal Reserve policy should depend in part on its psychological effect. For that reason it ought to be extremely simple. The public should know that when the Federal Reserve System does anything in the direction of restraint that this constitutes a policy of restraint. A simple understanding of red and green signals of credit policy is an advantage which may be lost or impaired by actions that require more or less subtle explanation.

"3. The System's powers for counteracting the enormous volume of excess reserves now in existence and in prospect are limited. The open-market portfolio is \$2,400,000,000 and the maximum by which reserve requirements may be raised amounts to a similar figure. Excess reserves might become larger than could be counteracted by both of these instruments. Their full utilization, furthermore, particularly the sale of Government securities in large volume, may be a difficult matter. For this reason, it might be better policy to husband the System's resources in order to be in a position to utilize them to the maximum effect when the need comes.

"4. Action at the present time might, even though it

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"should not, result in a more hesitant attitude on the part of banks and might, therefore, retard recovery."

Mr. James inquired whether the Secretary of the Treasury had given consideration to the probability of action by the Board increasing reserve requirements, and the Chairman stated that he did not know what the views of the Secretary of the Treasury were on the matter, but that he planned to discuss the matter with him tomorrow when he would ascertain his views.

Mr. Eccles also read a draft of a press statement which he had had prepared with regard to increasing reserve requirements and a proposed press statement which had been sent to him by Governor Harrison, Chairman of the Federal Open Market Committee, on the same subject.

Mr. Miller said that during the discussion the thought had occurred to him that it might be desirable to consider the advisability of issuing a press statement reviewing the growth of excess reserves through gold imports and other causes, the problems presented by the present large volume of excess reserves, the powers now possessed by the System to meet the problems thus created, and concluding with a statement that the Board is watching the matter closely and will take action when necessary to prevent the development of an injurious situation. This suggestion was discussed.

The Chairman stated that he felt that, if action were to be taken by the Board to increase reserve requirements, it should be taken not later than Friday of this week to become effective at some subsequent date not later than January 1, 1936, an announcement of

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the Board's action to be made immediately so as to remove from the picture any uncertainty in that connection at the time of the final formulation of the Government's financing program for December.

It was understood that the matter would be made special order of business for consideration at a meeting of the Board on Friday, November 8, 1935.

There followed a discussion as to the contents of a press statement to be issued by the Board in the event of a change in reserve requirements and, upon motion by Mr. James, Mr. Miller was requested to confer with Mr. Goldenweiser, Director of the Division of Research and Statistics, and Mr. Thurston, Special Assistant to the Chairman, and prepare a proposed press statement on the subject for consideration at a meeting of the Board on Friday morning.

Mr. Eccles then pointed out that, if action should be taken by the Board to increase reserve requirements, a letter should be sent to the Federal reserve banks advising them of the Board's action.

It was agreed that Mr. Miller in consultation with Mr. Goldenweiser, would prepare a draft of letter for consideration at the meeting on Friday.

Mr. Miller stated that there was some doubt in his mind as to the amount of the increase and as to whether the increase should be made in the immediate future, although he felt that action at this time would be effective in removing any question as to whether the Board was aware of the problem or as to its being in a position to act. Other members indicated that they were of the opinion that if a change in reserve requirements were to be made it would be unwise, in view of the

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large amount of excess reserves, to make the amount of the increase less than 25%.

At this point Mr. O'Connor withdrew from the meeting.

The Chairman stated for the information of the other members of the Board that following the discussion at the meeting of the Board with the Governors' Conference on October 24, 1935, he had had prepared for the consideration of the Secretary of the Treasury a program for the discontinuance of the issuance of Federal reserve notes of the old form which provide that the notes are payable in gold at the Treasury Department or in gold or lawful money at any Federal reserve bank. Mr. Eccles said that he believed the Secretary, under his authority to prescribe the form of Federal reserve notes, would direct that the issuance of notes in the old form be discontinued as promptly as possible and, in accordance with his agreement, request that Congress appropriate the funds necessary to enable the Treasury to furnish notes in the new form without cost to the Federal reserve banks in place of the unissued stocks of old notes held by the banks which would have to be destroyed.

The Chairman then presented a letter addressed to him under date of October 31, 1935, by Mr. Sproul, Secretary of the Federal Reserve Bank of New York, reading as follows:

"In accordance with your conversation with Governor Harrison today, I am writing to inform you that at its meeting this afternoon our board of directors voted that the officers be authorized and instructed to sell the \$23,805,200 of United States Government bonds held in this bank's own investment account, as and when the market

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"for such securities will conveniently permit of such disposal, and to purchase an equivalent amount of United States Government securities of shorter maturities.

"The bond holdings in this bank's investment account affected by the above action of our board of directors are now as follows:

3 1/4%	Treasury bonds of 1941	\$4,171,200
3 3/8%	" " " 1941-3	750,000
3 3/8%	" " " 1940-3	10,262,000
3 3/8%	" " " 1943-7	4,267,000
2 7/8%	" " " 1955-60	<u>4,355,000</u>
		\$23,805,200

"The directors were moved to take this action because (a) this bank at present has no need to hold bonds in its portfolio in order to maintain its earnings and, as a general rule, the directors would prefer to confine investments in this account to securities of shorter maturity; (b) because of the possibility that the System may later decide to increase the amount of bonds in the System special investment account, as was discussed at the recent meeting of the Federal Open Market Committee, in which event this bank may find itself acquiring further bond holdings as part of its participation in the System account, and (c) because of the possibility that under certain circumstances this bank later may find it necessary to buy government bonds from some of its member banks, especially if reserve requirements should be substantially increased.

"It is anticipated that this operation will be spread over a number of weeks, advantage being taken of periods of strength in the market to effect sales, and the appearance of a large change in the maturity distribution of our published holdings, in any one week, being avoided."

After a brief discussion during which it was pointed out that the action contemplated by the Federal Reserve Bank of New York would make no change in the total amount of securities held by the bank, Mr. James moved that the Secretary be requested to prepare a letter to the Governor of the Federal Reserve Bank of New York stating that the Board interposes no objection to the contemplated sale of the long term Government securities held in the bank's own investment account and their replacement by Government securities with shorter maturities in accordance with the program authorized by the directors.

Carried unanimously.

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Mr. Goldenweiser left the meeting at this point and the Board then acted upon the following matters:

Letter to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank on November 5, 1935, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated October 31, 1935, from Mr. James submitting a letter dated October 24 from Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, which requested approval of changes in the personnel classification plan of the bank to provide for the creation of a Work Relief Checks Section in the Transit Division of the Collection Department and of twelve new positions therein, and of the assignment of Mr. Charles E. Diringer, Chief of the Coupon Collection Division, to the organizing and directing of the Work Relief Checks Section until December 20, 1935. The memorandum stated that Mr. James had reviewed the proposed changes and recommended that they be approved.

Approved unanimously.

Memorandum dated October 30, 1935, from Mr. James, submitting a letter dated October 23 from Mr. Preston, Deputy Governor of the Federal Reserve Bank of Chicago, which requested approval of changes in the personnel classification plan of the bank to provide for the creation of an Emergency Relief Checks Department and of fifteen positions therein, to handle emergency relief checks. The memorandum stated that

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Mr. James had reviewed the proposed changes and recommended that they be approved.

Approved unanimously.

Letter to the board of directors of "The Farmers State Bank of Waupaca", Waupaca, Wisconsin, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, together with a letter to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers State Bank of Waupaca', Waupaca, Wisconsin, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Wisconsin for his information.

"It has been noted that the eliminations recommended by the Reserve Bank Committee as a condition of membership included the elimination of \$6,302.45 depreciation in bonds bearing a rating of B3; that is, a rating among the four highest grades. As you know, it is not the Board's usual policy to require as a condition of membership the elimination of depreciation in such issues, and, accordingly, the amount of such depreciation has not been included in the elimination required under the provisions of condition of membership numbered 17. Mr. Young has indicated that the condition as revised in accordance with the Board's usual policy will be satisfactory to your office.

"It has been noted, also, that the elimination recommended by the Reserve Bank Committee included \$17,713.97 depreciation in Group 2 securities. The report of examination of the bank as of October 7, 1935, however, indicates

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"the correct amount of depreciation in Group 2 securities to be \$16,713.97, which amount has been used in arriving at the total of depreciation to be eliminated in accordance with condition numbered 17.

"It appears from the report of examination of the applicant bank made as of October 7, 1935, that, in their capacity as directors, Messrs. R. S. Barber and H. C. Frihart own only one share, and Mr. H. C. Johnson owns only two shares, of the capital stock of the bank. In this connection, section 221.08(4) of the Banking Laws of the State of Wisconsin, as revised to May 1, 1932, which is the latest complete compilation of the banking laws of this State which the Board has available, provides that every director of a State bank shall be the owner in good faith of at least one per cent of the capital stock of the bank if it is less than \$50,000, or of stock having a par value of not less than \$500 if the bank has \$50,000 or more of capital stock, although any person serving as a director of any bank on January 1, 1932, is eligible for reelection annually thereafter if he meets the requirements in force prior to that date. In the circumstances, it is requested that, if he has not already done so, counsel for your bank satisfy himself that Messrs. Barber, Frihart and Johnson are not disqualified to act as directors of the subject bank, and, prior to its admission to membership, he should also be satisfied that its application for membership and the acceptance of the conditions of membership prescribed for it by the Board are based upon validly adopted resolutions of its board of directors.

"It has been observed that on April 10, 1935, and on at least one occasion prior thereto, the Commissioner of Banking of the State of Wisconsin criticized the bank for its practice in granting overdrafts and that, under date of April 25, 1935, the bank gave assurances to the Commissioner that such practice would be discontinued. In this connection, however, the report of examination referred to above indicates that the bank nevertheless has continued to follow this practice, since the report discloses that the bank, during the period from September 7, 1935, to October 10, 1935, permitted overdrafts amounting to \$782.48, and the examiner states that overdrafts are habitually granted. In the circumstances, you are requested to call the bank's specific attention to condition of membership numbered 6.

"It has been noted further that the papers submitted with the bank's application for membership did not include a copy of the certificate issued by the State authorities authorizing the bank to commence business. Since the bank

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"was organized in 1910, it is possible that a certificate of this kind was not required at that time, but, if it was required, it will be appreciated if you will obtain and forward a copy of it to the Board for its records."

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 'General Educational Fund, Inc. Founded by Emma Eliza Curtis', Burlington, Vermont, for a voting permit entitling such corporation to vote the stock which it owns or controls of 'The Merchants National Bank of Burlington', Burlington, Vermont, the Board has determined that such 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 that, 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 the Board."

Approved unanimously, together with a letter to "General Educational Fund, Inc. Founded by Emma Eliza Curtis", Burlington, Vermont, reading as follows:

"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 Burlington', Burlington, Vermont.

"The Board understands that your corporation was organized

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"pursuant to the provisions of a testamentary charitable trust for the purpose of aiding young men and women to obtain a common school or university education, or both, or to learn a trade, handicraft, business, or profession, or to obtain instruction in domestic science, or to obtain other useful knowledge. It is understood that your corporation has been and is operated solely for such purpose, and that its stock ownership and control of The Merchants National Bank and The Farmers Trust Company, Burlington, Vermont, a nonmember trust company is incidental to such purpose.

"As you 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 provision, and, therefore, 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 and on this basis the Board will give no further consideration to your application for such a permit.

"If, however, the purpose for which your corporation is operated or the nature of its activities 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. Fletcher, Acting Federal Reserve Agent at the Fed-

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eral Reserve Bank of Cleveland, reading as follows:

"In connection with its consideration of the application of 'Windber Trust Company', Windber, Pennsylvania, for a voting permit entitling it to vote the stock which it owns or controls of 'Merchants and Miners Bank', Paint Borough, Pennsylvania, 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 unanimously, together with a
letter to the "Windber Trust Company", Windber,
Pennsylvania, reading as follows:

"This refers to the application of your company for a voting permit entitling it to vote the stock which it owns or controls of 'Merchants and Miners Bank', Paint Borough, Pennsylvania.

"The Board understands that your company is engaged in the general banking business and was organized and is operated for that purpose; that your company owns 56.67% of the stock of Merchants and Miners Bank, Paint Borough, Pennsylvania, 38.8% of the stock of Berwind Bank, Berwind, West Virginia, and stock of four other banks in amounts not exceeding 6% of the outstanding stock in any instance; that the assets of your company are far greater in amount than those of Merchants and Miners Bank, its sole subsidiary bank; that only a relatively insignificant portion of your company's assets is invested in bank stock; and that your company was not organized

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"and is not operated for the purpose of managing or controlling banks and does not hold the stock of the above-mentioned banks for such purpose.

"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 company 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 company to obtain a voting permit in order to vote the stock which it owns or controls of Merchants and Miners Bank and, on this basis, the Board will give no further consideration to your application for such a permit.

"If, however, your company acquires control over any other bank, or the purpose for which your company operates, the purpose for which it holds the stock of the subsidiary bank, 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. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"In connection with its consideration of the appli-

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"cations of 'G. W. Mead Securities Corporation' and 'Mead Corporation', both of Chicago, Illinois, for voting permits entitling them to vote the stock which they own or control of 'The Illinois National Bank & Trust Co. of Rockford', Rockford, Illinois, the Board has determined that the applicants are 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 applicants are not holding company affiliates for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter addressed to the applicants jointly, advising them 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 applicants. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make further determinations with reference to such corporations 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 unanimously, together with a letter addressed jointly to "G. W. Mead Securities Corporation", and "Mead Corporation", both of Chicago, Illinois, reading as follows:

"This refers to the applications of your corporations for voting permits entitling them to vote the stock which they own or control of 'The Illinois National Bank & Trust Co. of Rockford', Rockford, Illinois.

"The Board understands that all of the stock of G. W. Mead Securities Corporation is owned by George W. Mead and his family; that G. W. Mead Securities Corporation owns all of the stock of Mead Corporation but has no other significant assets; and that the following statement of the assets of Mead Corporation, contained in its statement of condition as of April 30, 1935, substantially reflects the character and relative value of the various classes of assets now owned by that corporation:

Consolidated Water Power and Paper

Company stock..... \$5,335,094

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"Illinois National Bank & Trust Co.	
stock	\$ 218,750
Cash	12,754
Due from G. W. Mead Securities Corporation..	575
Interest paid in advance	<u>230</u>
Total.....	\$5,565,403

"It is understood that Consolidated Water Power and Paper Company and its subsidiaries are engaged in the manufacture of paper and in related enterprises; that Mead Corporation owns a majority of the outstanding shares of stock of Consolidated Water Power and Paper Company; that Mead Corporation owns 1,750 of the 2,000 shares of stock of The Illinois National Bank & Trust Co. of Rockford but does not own or control stock of any other bank; that such bank was organized in 1931, following the closing of several banks in Rockford, in order to provide banking facilities for that city and to make use of a bank building and equipment then owned by George W. Mead; that Mead Corporation acquired 1,885 shares of the stock of such bank at the time of its organization; that Mead Corporation has since sold 135 shares and it is the intention of that corporation to dispose of the remainder of the bank stock as rapidly as possible; and that neither of your corporations was organized or is operated for the purpose of managing or controlling banks.

"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 corporations are 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, they are not holding company affiliates for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for your corporations to obtain voting permits in order to vote the stock which they own or control of The Illinois National Bank & Trust Co. of Rockford

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"and, on this basis, the Board will give no further consideration to the applications of your corporations for such permits.

"If, however, either of your corporations acquires control over any other bank or if the facts should at any time otherwise differ from those set out above to an extent which would indicate that either or both of your corporations might be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board. The Board reserves the right to make further determinations with reference to either or both of your corporations at any time on the basis of the then existing facts."

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

"In connection with its consideration of the application of 'Bank of Commerce and Trust Company', Memphis, Tennessee, for a voting permit entitling it to vote the stock which it owns or controls of 'National Bank of Commerce in Memphis', Memphis, Tennessee, 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 unanimously, together with a letter to the "Bank of Commerce and Trust Company", Memphis, Tennessee, reading as follows:

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"This refers to the application of your company for a voting permit entitling it to vote the stock which it owns or controls of 'National Bank of Commerce in Memphis', Memphis, Tennessee.

"The Board understands that prior to May 1, 1933, your company was engaged in a general banking business; that on such date, because of difficulties in which your company was involved, the deposit liabilities of your company were assumed by, and certain of its assets were transferred to, National Bank of Commerce in Memphis, a new bank organized for such purpose by your company with the aid of a loan from the Reconstruction Finance Corporation; that your company owns all of the stock of National Bank of Commerce in Memphis, except directors qualifying shares; that the stock owned by your company is deposited with trustees under a voting trust agreement and, together with substantially all other assets of your company, is pledged with the Reconstruction Finance Corporation; that since May 1, 1933, your company has been operated solely for the purpose of liquidating its assets in order to retire obligations owed to the Reconstruction Finance Corporation and it is hoped eventually to distribute the stock of National Bank of Commerce in Memphis to your company's stockholders; that your company owns substantially all of the stock of the Tennessee Joint Stock Land Bank; that your company does not manage or control any other banking institution; and that your company was not organized and is not operated for the purpose of managing or controlling banks.

"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 company 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, there-

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"fore, 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 company to obtain a voting permit and, on this basis, the Board will give no further consideration to your application.

"If, however, your company acquires control over any other bank, or the purpose for which your company operates, 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. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"In connection with its consideration of the application of 'Lehnhard Investment Company', Monett, Missouri, for a voting permit entitling such corporation to vote the stock which it owns or controls of 'The First National Bank of Monett', Monett, Missouri, the Board has determined that such 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 that, 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 the Board."

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Approved unanimously, together with a letter to "Lehnhard Investment Company", Monett, Missouri, reading as follows:

"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 First National Bank of Monett', Monett, Missouri.

"The Board understands that your corporation was organized by the heirs of P. J. Lehnhard for the purpose of holding the assets of his estate; that the corporation has never actively engaged in business but has confined its activities to the management of the assets of such estate; that the principal assets of the corporation consist of farm lands; and that the investment in the stock of The First National Bank of Monett constitutes a relatively small portion of the total assets of the corporation. It is also understood that your corporation does not hold stock of, or manage or control, any bank other than The First National Bank of Monett and that your corporation was not organized and is not operated for the purpose of managing or controlling banks.

"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 provision, and, therefore, 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 First National Bank of Monett and on this basis the Board will give no further consideration to your application for such a permit.

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"If, however, your corporation acquires control over any other bank, or the character of the business of your corporation, the nature of its assets, or the purpose for which it is operated 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."

Thereupon the meeting adjourned.

Chesler Mowile
Secretary.

Approved:

W. C. Keeler
Chairman.