

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, November 16, 1935, at 11:30 a. m.

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:

Letters to the chairmen of the Federal Reserve Banks of Boston and Richmond stating that the Board approves the establishment without change by the banks on November 13 and 14, 1935, respectively, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated November 12, 1935, from Mr. James submitting a letter dated November 5 from Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, which requested approval of changes in the personnel classification plan of the bank to provide for the new position of "Statistician and Clerk" and the discontinuance of the position of "Typist-Clerk", both in the Statistical Division of the Federal Reserve Agent's Department. The memorandum stated that Mr. James had reviewed the proposed changes and recommended that they be approved.

Approved unanimously.

Letter to the "First National Bank in Santa Ana", Santa Ana, California, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for permission

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"to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of California, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course.

"The Board's grant of fiduciary powers to you has been given on the assumption that The First National Bank of Santa Ana, California, will by appropriate proceedings be placed in voluntary liquidation as soon as it is possible to do so and the Board feels that, if you are tendered any of the trusts now held by such bank, you should carefully scrutinize their condition and that you should not accept any of such trusts which through their assumption may be detrimental to your interests."

Approved unanimously.

Letter to Mr. E. J. Walsh, Vice President, Third National Bank, Nashville, Tennessee, reading as follows:

"Your letter of October 25, 1935, addressed to the Comptroller of the Currency, has been referred to the Board of Governors of the Federal Reserve System for reply. You request advice as to whether an increase in the capital of the Third National Bank, Nashville, Tennessee, will make it necessary for the bank to increase its surplus in order to continue to exercise trust powers, in view of the provision of the laws of the State of Tennessee requiring a State bank to have a surplus 'equal to twenty per cent of its capital stock' to entitle it to receive appointment to 'accept and execute trusts'.

"The records of the Board of Governors of the Federal Reserve System show that, on July 21, 1927, the Third National Bank was granted permission to act in all of the fiduciary capacities authorized by section 11(k) of the Federal Reserve Act and that, at the time of granting such permission, the bank had the capital and surplus required by that Act to exercise trust powers.

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"In connection with the issuance of permits authorizing national banks to exercise trust powers, section 11(k) of the Federal Reserve Act provides as follows:

'That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.'

"The Board has heretofore taken the position that this requirement is applicable only at the time of the granting of permission to a national bank to exercise trust powers. In the circumstances, the Board is of the opinion that the Third National Bank, Nashville, Tennessee, may lawfully continue the exercise of trust powers under the permission heretofore granted to it by the Board even though it increases its capital without making a corresponding increase in its surplus sufficient to comply with the provision of the laws of Tennessee referred to above."

Approved unanimously.

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

"In connection with its consideration of the application of 'The First National Bank of Philadelphia', Philadelphia, Pennsylvania, for a voting permit entitling such bank to vote the stock which it owns or controls of the 'First Trust Company of Philadelphia', Philadelphia, Pennsylvania, 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

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"is requested that you advise the Board if, at any time, you believe this matter should again be considered by the Board.

"Under date of December 15, 1934, the Board forwarded to you for delivery to the First Trust Company of Philadelphia a letter advising such company that the Board had approved its application for stock in the Federal Reserve Bank of Philadelphia subject to compliance by The First National Bank of Philadelphia with the conditions prescribed by the Board in connection with the issuance of a general voting permit to the national bank, and subject to the numbered conditions set forth in the letter to the First Trust Company of Philadelphia. At the same time, you were instructed not to issue stock in the Federal Reserve Bank of Philadelphia to the First Trust Company of Philadelphia until you had received information satisfactory to you that all of the conditions contained in the Board's letter to The First National Bank of Philadelphia regarding the issuance of a voting permit had been complied with.

"In view of the fact that the Board has determined that The First National Bank of Philadelphia is no longer a holding company affiliate of the First Trust Company of Philadelphia, except for the purposes of section 23A of the Federal Reserve Act, you are now authorized to issue stock in the Federal Reserve Bank of Philadelphia to the First Trust Company of Philadelphia upon compliance with all of the conditions stated in the Board's letter to such company dated December 15, 1934, except the condition stated in the first paragraph of such letter in the following words: 'subject to compliance by The First National Bank of Philadelphia with the conditions prescribed by the Board in connection with the issuance of a general voting permit to the national bank'.

"Under date of June 18, 1935, the Board advised you that the time during which the First Trust Company of Philadelphia might accomplish admission to membership in the Federal Reserve System was extended to 30 days from the date on which the Board should announce its decision with regard to the question raised in connection with the issuance of a voting permit to The First National Bank of Philadelphia. Accordingly, the time within which admission to membership in the Federal Reserve System in the manner described above may be accomplished by the First Trust Company of Philadelphia is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time.

"As stated in the Board's telegram of June 18, 1935, in view of the length of time which has elapsed since the application for membership was approved, compliance with the requirements prescribed should be based upon current appraisals of securities and the latest reports of examination available which are satis-

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"factory to you."

Approved unanimously, together with a letter to "The First National Bank of Philadelphia", Philadelphia, Pennsylvania, reading as follows:

"This refers to the application of your bank for a voting permit entitling it to vote the stock which it owns or controls of the 'First Trust Company of Philadelphia', Philadelphia, Pennsylvania.

"The Board understands that your bank is engaged in the general banking business and was organized and is operated for that purpose; that your bank owns or controls all of the stock of the First Trust Company of Philadelphia; that your bank handles primarily commercial banking business whereas the First Trust Company of Philadelphia handles primarily trust business; that your bank holds among its investments stock of several other banks but in each instance such stock constitutes a very small portion of the outstanding stock of such other bank; that the assets of your bank are approximately 200 times as large as those of the First Trust Company of Philadelphia, its sole subsidiary bank; that only a relatively insignificant portion of the assets of your bank is invested in bank stock; and that your bank 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 bank 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 bank to obtain a voting per-

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"mit in order to vote the stock which it owns or controls of the First Trust Company of Philadelphia and on this basis the Board will give no further consideration to your application for such a permit.

"If, however, your bank acquires control over any other bank, or the character of the business of your bank, 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."

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

"In connection with its consideration of the application of 'Citizens Trust Company', Clarion, Pennsylvania, for a voting permit entitling such company to vote the stock which it owns or controls of 'The First National Bank of Fryburg', Fryburg, Pennsylvania, and 'The First National Bank of Shippenville', Shippenville, Pennsylvania, 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 the "Citizens Trust Company",

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Clarion, 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 'The First National Bank of Fryburg', Fryburg, Pennsylvania, and 'The First National Bank of Shippenville', Shippenville, 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 53.6% of the stock of The First National Bank of Shippenville and 42.4% of the stock of The First National Bank of Fryburg; that your company holds among its investments 37.6% of the stock of The Sligo National Bank, Sligo, Pennsylvania, 18% of the stock of The First National Bank of Rimersburg, Rimersburg, Pennsylvania, and a very small fraction of 1% of the stock of the First National Bank at Pittsburgh, Pittsburgh, Pennsylvania; that the assets of your company are more than twice as large as the combined assets of its two subsidiary banks; that only a relatively small portion of the assets of your company are invested in bank stock; 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 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 company to obtain a voting permit in order to vote the stock which it owns or controls of

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"The First National Bank of Fryburg or The First National Bank of Shippenville, 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 character of the business of your company, 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."

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

"In connection with its consideration of the application of 'The Colonial Trust Company', Pittsburgh, Pennsylvania, for a voting permit entitling it to vote the stock which it owns or controls of 'The Greenville National Bank', Greenville, 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 Colonial Trust Company", Pitts-

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burgh, 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 'The Greenville National Bank', Greenville, Pennsylvania.

"The Board understands that your company is engaged in the general banking and trust business and was organized and is operated for that purpose; that your company owns 685 of the 1,350 outstanding shares of stock of 'The Greenville National Bank', Greenville, Pennsylvania, and all of the shares of stock, except directors' qualifying shares, of the 'Freehold Bank', Pittsburgh, Pennsylvania; that your company holds small amounts of stock of a number of other banks but does not manage or control any of such banks; that the assets of your company are approximately six times as large as the combined assets of the two subsidiary banks; that only a relatively small portion of your company's assets is invested in bank stock; and that your company was not organized and is not operated for the purpose of managing or controlling banks.

"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 section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, therefore, it is not a holding company affiliate for any purposes other than those of section 25A of the Federal Reserve Act. Accordingly, it is not necessary for it to obtain a voting permit in order to vote the stock which it owns or controls of The Greenville National Bank and, on this basis, the Board will give no further consideration to its application for such a permit.

"If, however, your company 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 your company 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 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 Federal Reserve Bank of Cleveland, reading as follows:

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"In connection with its consideration of the application of the 'Union Trust Company of New Castle', New Castle, Pennsylvania, for a voting permit entitling such company to vote the stock which it owns or controls of the 'First National Bank of Lawrence County at New Castle', New Castle, Pennsylvania, 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 the "Union Trust Company of New Castle", New Castle, 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 the 'First National Bank of Lawrence County at New Castle', New Castle, Pennsylvania.

"The Board understands that your company is engaged in the general banking business and was organized and is operated for such purpose; that your company owns 99.2% of the stock of the First National Bank of Lawrence County at New Castle but does not hold the stock of, or manage or control, any other bank; that the investment of your company in the stock of the First National Bank of Lawrence County at New Castle constitutes approximately 58% of the total assets of your company; that the First National Bank of Lawrence County at New Castle handles primarily commercial banking business whereas your company handles primarily trust business; and that your company was not organized and is not operated for the pur-

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"pose of managing or controlling banks.

"As you perhaps know, section 501 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 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 company to obtain a voting permit in order to vote the stock which it owns or controls of the First National Bank of Lawrence County at New Castle, 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 character of the business of your company, 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."

Telegram to Mr. A. P. Giannini, Chairman of the Bank of America National Trust and Savings Association, San Francisco, California, sent to him in care of the Transamerica Corporation, New York, New York, and reading as follows:

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"Referring Board's letter November 9 sent to you at Roosevelt Hotel, New Orleans, regarding tentative conditions in connection with voting permit for Transamerica Corporation, and your wire tenth addressed to Mr. Hamlin, if you still desire a hearing it will be held here on Friday November 22 at eleven a.m. STOP Please advise by wire."

Approved unanimously.

Letter to Mr. G. K. Lombard, Cashier of The Farmers and Citizens State Bank, Crestline, Ohio, reading as follows:

"Your letters of October 22, and October 23, 1935, addressed to the Comptroller of the Currency, regarding the right of a national bank to pay interest after August 23, 1937, on public funds which are payable on demand, have been referred to the Board of Governors of the Federal Reserve System for reply.

"Under the provisions of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, no member bank may lawfully pay interest after August 23, 1937, on any deposit of public funds which is payable on demand; nor may the payment of such interest after that date be rendered lawful by provisions requiring such payment contained in a contract entered into subsequent to the Banking Act of 1935. However, it should be noted that the execution of such a contract by a national bank does not of itself constitute a violation of the law and that no violation of the law would occur unless and until interest accruing after August 23, 1937, is actually paid by the national bank on public funds payable on demand."

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

"It has recently come to the attention of the Board that the First National Bank in Crestline, Crestline, Ohio, on October 23, 1935, entered into a contract to pay interest on certain demand deposits of the City of Crestline, Ohio, for a period of three years from the date of the contract.

"As you know, section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, provides that no member

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"bank shall pay any interest on any deposit which is payable on demand, but excepts from that prohibition, until the expiration of two years after the enactment of the Banking Act of 1935, any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality with respect to which the payment of interest is required by State law. No question is here raised with respect to whether the payment of interest is required by the law of the State of Ohio with respect to public funds of a municipality. Irrespective of that question, however, no member bank may lawfully pay interest accruing after August 23, 1937, on any deposit of public funds which is payable on demand; nor may the payment of such interest after that date be rendered lawful by provisions requiring such payment contained in a contract entered into subsequent to the Banking Act of 1935.

"In the circumstances, it appears that the contract of the First National Bank in Crestline, in so far as it requires the payment of interest on the funds in question after August 23, 1937, was improperly entered into. Accordingly, you are requested to bring this matter to the attention of the chief national bank examiner of your district in order that he may take such action as he may deem necessary to prevent the making of further contracts of this nature by national banks in the State of Ohio."

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

"Supplementing the Board's letters of September 30 and October 22, 1935, it will be appreciated if you will request all member firms of the Cincinnati Stock Exchange who have their principal offices in your Federal Reserve district to make monthly reports on Form F. R. 240, beginning with the reports as of November 30, 1935, in the same manner in which you requested reports as of October 31, 1935 from member firms of the Cleveland Stock Exchange.

"Please inform the Board as to whether any member firms of the Cincinnati Stock Exchange have their principal offices outside your district.

"In the Board's letter of September 20, you were requested to forward each month to the Board separate figures for (1) member firms of the New York Stock Exchange and (2) other member firms of national securities exchanges. The figures collected pursuant to this letter should be included with those

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"already being collected from 'other member firms of national securities exchanges'."

Approved unanimously.

Letter to Mr. George A. Leatherman, Head of Department of Business Management, Armstrong College of Business Administration, Berkeley, California, reading as follows:

"This refers to your letter of October 30, 1935, requesting information as to whether section 19 of the Federal Reserve Act, as amended by section 207 of the Banking Act of 1935, authorizes the Board of Governors of the Federal Reserve System to change the reserve requirements for individual member banks, or whether such change must apply to all the banks in a given class.

"You are doubtless familiar with the language of the provision of law in question which authorizes the Board of Governors, under certain conditions and subject to certain limitations, in order to prevent injurious credit expansion or contraction, to change by regulation the requirements 'as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks'. As you know, this authority was given by the Banking Act of 1935 which was approved August 23, 1935. Questions arising under this provision of law, therefore, are comparatively new and the Board has not had occasion to take any position or express any opinion with respect to the question which you present. The Board does not feel that it should undertake to express opinions as to the interpretation of provisions of law except as questions arise in actual cases and their determination is necessary in the administration of the law; and accordingly we regret that we are unable at this time to reply definitely to the question which you have raised."

Approved unanimously.

Letter to Honorable Richard B. Russell, Jr., United States Senator, Winder, Georgia, reading as follows:

"Reference is made to your communication of October 21, 1935, inclosing a letter from Mr. Gus F. Ziv, President of the Ziv Steel and Wire Company, Chicago, and to the Board's acknowl-

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"edgment thereof under date of November 2.

"In his letter to you of October 16 Mr. Ziv indicated that he had been unsuccessful in his effort to obtain a small loan from the Federal Reserve Bank of Chicago. He also stated that he had invited a representative of the Federal Reserve bank to call at his office so that the application for a loan might be more intelligently acted on, but that the Federal Reserve bank did not see its way clear to accept his invitation. It also appeared from Mr. Ziv's letter, however, that he had not in fact submitted an application. This is confirmed by the Federal Reserve Bank of Chicago in response to our inquiry.

"Mr. Ziv has quoted in his letter to you from a letter he wrote to the Federal Reserve bank setting forth his reasons for refusing to sign an application. Under date of September 24 the Federal Reserve Bank answered Mr. Ziv's letter and a copy of its answer is inclosed.

"Since industrial loans are authorized by law to be made only on a sound and reasonable basis, it is necessary for the banks to require adequate information from applicants, but efforts have been made consistently with the protection of the bank's interest to simplify requirements as much as possible. Loans under the terms of the provision in question have been made to the widest variety of industrial and commercial borrowers, including manufacturers, retailers, wholesalers, transportation companies, newspapers, nurseries, filling stations, dairies, etc., and the borrowers have in the majority of cases been either little known or wholly unknown to the bank. Moreover in possibly the majority of cases the borrowers have their business at a considerable distance from the bank. Under these circumstances it is necessary for the Reserve banks to require a great deal of information and to make conditions for the protection of loans. There is no doubt that the execution of the forms necessary to obtain loans is sometimes annoying to applicants, especially to those who operate small businesses and have meagre facilities for the maintenance of records. Nevertheless, over seven thousand applications have been submitted to the Federal Reserve banks in the period of a little less than seventeen months since industrial loans by the Federal Reserve banks were authorized.

"It frequently happens that a prospective applicant will have to be informed that the loan he contemplates is not one authorized by law, in which case, of course, he does not submit a formal application. Except in Mr. Ziv's case, it is not recalled that any refusal of an apparently eligible applicant to sign the regular application form has come to the Board's attention. There have been complaints from applicants as to requirements, but the banks have also received from borrowers, and

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"also from applicants to whom no loans were made, expressions of thanks for suggestions made and for improvements in business practice which had resulted from the Reserve bank's questions.

"Since Mr. Ziv was unwilling to submit an application, the bank presumably did not feel justified in sending any one to interview him and inspect his plant - a procedure which would be expensive and wasteful for the bank.

"Mr. Ziv indicates his belief that the provisions of the law are not being properly administered and that the small borrower is not receiving the benefits intended. Figures compiled by the Federal Reserve System show that over half of the outstanding industrial loans made by the Federal Reserve banks are for amounts of less than \$25,000, and that over a third are for amounts of less than \$10,000, which was the amount Mr. Ziv indicates he had in mind to borrow. Loans have been made in as small an amount as \$250."

Approved unanimously.

Letter to Mr. Strater, Deputy Governor of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of November 9 inclosing pages of the budget statement for the head office and branches, which have been revised for the period of July to December 1935.

"It is noted from your letter that, while there have been no material changes, provision has been made for an increase of \$19,232 in the original cost of Federal reserve currency to take care of your present current expenditures for this item. It is also noted that the budget has been revised to conform with the Board's Functional Expense Manual with respect to the distribution of the item 'Contributions-Retirement System'."

Approved unanimously.

There was then presented the following application for a change in stock of a Federal reserve bank:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>
<u>District No. 7.</u>	
The Ogle County National Bank of Oregon, Oregon, Illinois.	36

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Approved unanimously.

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Thereupon the meeting adjourned.

Robert Moriel
Secretary.

Approved:

[Signature]
Vice Chairman.