

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 23, 1935, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
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:

Bond, in the amount of \$50,000, executed under date of December 18, 1935, by Mr. Oliver S. Powell as Assistant Federal Reserve Agent at the Federal Reserve Bank of Minneapolis.

Approved unanimously.

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

"In accordance with your recommendation, the Board interposes no objection to the absorption of the Haddonfield Trust Company, Haddonfield, New Jersey, by the 'Camden Safe Deposit and Trust Company', Camden, New Jersey, under the plan submitted in your letter of October 7, 1935, and approves the application of the Camden Safe Deposit and Trust Company for permission to operate a branch in Haddonfield, New Jersey, on condition that:

1. The absorption of the Haddonfield Trust Company and establishment of a branch at Haddonfield, New Jersey, by the Camden Safe Deposit and Trust Company, is approved by the appropriate State authorities.
2. The Federal Deposit Insurance Corporation approves the assumption of the deposits of the Haddonfield Trust Company by the Camden Safe Deposit and Trust Company.
3. The Camden Safe Deposit and Trust Company shall not include in the carrying value of the assets acquired from the Haddonfield Trust Company any

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"estimated losses, including any of the estimated losses and depreciation aggregating \$428,893 as shown in the report of examination of the Haddonfield Trust Company as of April 3, 1935, made by an examiner for the Federal Reserve Bank of Philadelphia, which have not previously been eliminated. "Please advise the trust company accordingly."

Approved unanimously.

In connection with this matter consideration was given to a memorandum dated December 18, 1935 from Mr. Wingfield, Assistant General Counsel, in which the opinion was expressed that the Board would be justified in following the construction placed upon the law by the Comptroller of the Currency and in permitting a State member bank to establish a branch while its capital is impaired if, in the Board's judgment, all of the other facts involved justify the approval of the establishment of the branch.

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

"Reference is made to your letter of December 2, 1935, transmitting the request of the 'Elliott State Bank', Jacksonville, Illinois, for permission, in accordance with the provisions of membership condition numbered 8, to increase by \$20,000 the carrying value of its banking house under a plan which provides for the retirement of the outstanding mortgage of \$30,000 on the property, an increase of \$20,000 in the carrying value of the banking house, and a charge of \$10,000 to undivided profits.

"The report of condition of the bank as of November 1, 1935, shows capital accounts, including \$200,000 in common stock, aggregating approximately \$352,000 and equity in banking house carried at \$125,700, and the report of examination of the bank as of January 14, 1935, reflects a satisfactory condition and a capable management. In view of the circumstances, therefore, including your recommendation and the fact that the proposed increase in the investment in banking house does not appear to be unduly large or improper or otherwise violate the spirit or purpose of membership condition numbered 8, the Board interposes no objection to the proposed investment in banking

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"house in the amount indicated and it is requested that you advise the bank accordingly.

"The report of examination of the bank as of January 14, 1935, indicates that banking house and furniture and fixtures are regularly depreciated at annual rates of 10 per cent and 2 per cent, respectively, and it is assumed that it is the intention of the bank to continue to make adequate provision for depreciation in such assets in the future."

Approved unanimously.

Letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of December 12, 1935, transmitting the request of the 'Citizens State Bank', Osage City, Kansas, for permission in accordance with the provisions of membership condition numbered 8 to invest \$6,025 in the purchase of a bank building, and advising that the bank expects to spend approximately \$1,000 in redecorating and remodeling such building which expenditure will be provided for from current earnings.

"It has been noted that the bank now owns and occupies a building which is carried on its books at \$5,250 and that such asset will be charged down to \$2,500 at the time of the purchase of the additional building, and that the bank has agreed to eliminate the balance of the carrying value of the building which it now owns as soon as it can be sold or in any event not later than January 1, 1938.

"In view of all of the circumstances, including your recommendation and the fact that the proposed investment does not appear to be unduly large or improper or otherwise violate the spirit or purpose of condition numbered 8 prescribed in connection with the bank's application for membership, the Board interposes no objection to the proposed investment in the banking quarters and it is requested that you advise the bank accordingly.

"It is suggested that you acquaint the bank with the Board's views which are known to your office with respect to making adequate provision for depreciation in banking quarters owned."

Approved unanimously.

Letter to Kenefick, Cooke, Mitchell, Bass & Letchworth, Attorneys at Law, Buffalo, New York, reading as follows:

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"This refers further to your letter of September 10, 1935, addressed to the Comptroller of the Currency, which was referred to the Board of Governors of the Federal Reserve System for reply, and to the Board's letter in reply thereto, under date of October 15, 1935, regarding the payment of interest by national banks in New York on deposits of trust funds payable on demand.

"In your letter of September 10, 1935, you point out that, while the provisions of the Banking Law of New York require the payment of interest on trust funds held by trust companies and by banks exercising fiduciary powers under special authority from the Superintendent of Banks, these provisions would not appear to be applicable to national banks in the State of New York.

"In this connection there is inclosed herewith a copy of the Board's Regulation Q, as recently revised to become effective January 1, 1936; and your attention is invited particularly to paragraph (2) of section II(b) of the inclosed regulation. You will note that it is expressly provided that the prohibition upon the payment of interest by member banks on demand deposits does not apply to the payment of interest accruing before August 24, 1937, on any deposit of trust funds if the payment of interest with respect to such deposit of trust funds is required by State law 'when such deposits are made in State banks'."

Approved unanimously.

Letter to Mr. Robert C. Zecher, President, The Lancaster County National Bank, Lancaster, Pennsylvania, reading as follows:

"This refers to your letter of December 2, 1935, regarding the ruling published at page 609 of the September, 1934 Federal Reserve Bulletin with respect to the renewal of certificates of deposit prior to maturity. That ruling reads, in part, as follows:

'It appeared that the practice described involves merely the making of a new contract of deposit which is to take effect on the date of maturity of the original certificate and that no part of the funds evidenced by the original certificate is withdrawn until the maturity of the renewal certificate. In the circumstances the Federal Reserve Board stated that there is no provision of law which would preclude adoption of this procedure, and the Board has no objection thereto.'

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"It is understood that you wish to know whether in such a situation your bank may pay the interest on the original certificate of deposit at the time of the renewal prior to the maturity of the original certificate.

"Of course, the payment of interest before it has actually accrued amounts to the payment of a somewhat higher rate than if the interest were paid after its accrual; and in paying interest on a certificate of deposit prior to the maturity of the certificate your bank should not pay a rate of interest in excess of that permitted under the Board's Regulation Q which relates to the payment of deposits and interest thereon. There is also the possibility that interest might become payable and, by agreement of the parties, be added to a deposit in such a manner as to become a portion thereof and become subject to the same provisions with respect to withdrawal as the other portions of the deposit. However, if the permissible rate of interest is not exceeded and the interest has not become payable and been added to the deposit in such a manner as to become a portion thereof, there is no prohibition in either the law or the regulation against the payment of interest on a certificate of deposit before the maturity of the certificate.

"If you have any further inquiries in this connection, it is suggested that you communicate with the Federal Reserve Bank of Philadelphia which will be glad to advise you regarding such matters."

Approved unanimously.

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

"Reference is made to Mr. Young's letter dated December 12, 1935, regarding an interpretation of section 345 of the Banking Act of 1935, with specific reference to the question of capital impairment and the eligibility of a bank for admission to membership in the System.

"It is understood that the bank which has made inquiry regarding its eligibility for admission to membership has deposits of approximately \$1,700,000 with a capital structure as follows:

Capital debentures	\$150,000.
Common capital	56,000.
Surplus	56,000.
Undivided profits	25,000.
TOTAL	\$287,000.

It is understood, also, that losses amount to approximately

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"\$106,000, leaving a capital structure of \$181,000, which is \$25,000 less than the total of the bank's capital debentures and capital stock.

"As you know, section 345 of the Banking Act of 1935 provides in part that --

'If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto.'

"Accordingly, if, in the case of the bank referred to, the capital debentures are of the type which the Reconstruction Finance Corporation is authorized to purchase, the Board may, in its discretion, consider the capital of the bank to be unimpaired. Whether, in any case, the Board should exercise its discretion and consider the capital to be unimpaired and the bank, therefore, eligible for admission to membership depends upon the circumstances. Ordinarily it would appear preferable that a bank in such a condition readjust its capital structure in order to eliminate any question of capital impairment. However, if such an adjustment is not practicable and the circumstances warrant, the Board may exercise its discretion as it did in the case of the First State Bank of Valparaiso, Valparaiso, Indiana, and consider the bank as being eligible for admission to membership."

Approved unanimously.

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

"This refers to your letter of December 10 with which you inclosed a request from counsel for the Fidelity Union Trust Co., Newark, New Jersey, for waiver of the requirement of reports of one of its affiliates, Jones & Woodland Company, Newark, New Jersey. It appears that the trust company feels that publication of the fact that Jones & Woodland Company, which is engaged in the manufacture of jewelry, is controlled by or is an affiliate of the Fidelity Union Trust Company, will have a ruinous effect on the satisfactory business which has been developed by

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"the company. It is also stated by the trust company's counsel that it is impossible to destroy the impression among buyers in the trade that bank control means liquidation, and that orders will not be given to a concern which they feel is on the verge of discontinuing its activities.

"It appears that the stock of the affiliate owned by the trust company is carried on the bank's books at \$1, but that the loan to the affiliate amounts to \$191,202.34. The report, therefore, does not come within the terms of waiver announced by the Board.

"After carefully considering the statements made by the trust company's counsel and your recommendation that requirement of a report be waived, the Board feels that it would not be justified in granting the request of the trust company. The terms of waiver are uniform and to extend them in individual cases does not appear to the Board to be warranted.

"However, the terms of waiver announced prior to the Board's call of November 1 will be modified so that reports will not be required in cases where the bank has no interest in the affiliate as stockholder or creditor in an amount in excess of one percent of the bank's unimpaired capital and surplus or \$5,000, whichever is less; the interest to be valued at the amount at which it is carried as an asset on the bank's books. If, before the end of the present year, there is a reduction in the figure at which the loan in question is carried on the member bank's books to an amount within the limitation mentioned, the Board will not insist on the submission and publication of the report of the affiliate as of the November 1 call. If, however, such reduction is not made the report as of November 1 should be submitted and published in accordance with present instructions.

"In accordance with the recommendation contained in your letter of December 9 the Board approves the request of the Fidelity Union Trust Co. for an extension of time to December 28 within which to submit reports of certain of its affiliates."

Approved unanimously.

Letter to Mr. Linwood E. Ashton, Cashier, The Portland National Bank, Portland, Maine, reading as follows:

"Receipt is acknowledged of your letter of December 12, 1935, in which you state that you understand that section 301 of the Banking Act of 1935 requires that you submit to the Board for determination the question 'whether or not trustees holding shares of capital stock of a national bank for the benefit of

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"shareholders are engaged directly or indirectly as a business in holding such stock' and that you are therefore inclosing a photostat copy of an agreement, dated January 27, 1928, between shareholders of your bank and certain men named therein as voting trustees.

"Section 2(c) of the Banking Act of 1933, as amended, defines the term 'holding company affiliate' as follows:

'(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization -

'(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

'(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

'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.'

"Section 301 of the Banking Act of 1935 merely amended section 2(c) of the Banking Act of 1933 by adding thereto the last paragraph quoted above. There is no occasion for a determination by the Board pursuant to the provisions of that paragraph except with respect to an organization which would otherwise be a holding company affiliate of a member bank.

"The agreement which you have submitted appears to be merely a voting trust agreement under which certain shareholders of your bank conveyed their stock to voting trustees for a period of ten years in order to promote stability in the policies and management of the bank. Under the terms of the agreement, the trustees do not constitute an organization having the essential characteristics of a 'corporation, business trust, association, or other similar organization' which might be a holding company affiliate of your bank. Neither do the trustees hold all or substantially all of the stock of your bank for the benefit of the shareholders or members of an organization which might be a holding company

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"affiliate of your bank.

"Accordingly, there is no occasion for a determination by the Board pursuant to the provisions of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935. For your information, there is inclosed herewith a copy of the Board's Regulation P, 'Holding Company Affiliates - Voting Permits', revised effective January 1, 1936."

Approved unanimously.

Telegram to the Federal reserve agents at all Federal reserve banks reading as follows:

"Some Federal reserve agents have indicated a desire to send copies of Regulations H and P to all member banks and copies of Regulation H to nonmember banks. Board contemplated that copies of Regulation H would be sent to State member banks and to nonmember banks interested in membership and that Regulation P would be sent to banks to which regulation might be applicable. It is realized that member banks may wish to have a complete set of Board's regulations but there is question whether this is sufficient reason for general distribution of Regulations H and P. If copies of these regulations are to be furnished to all member banks it will be necessary to have additional copies printed but before doing so Board desires expression from you as to why you favor or do not favor sending them to all member banks and Regulation H to nonmember banks."

Approved unanimously.

Letter to the Federal reserve agents at all Federal reserve banks transmitting forms and instructions for use in connection with the next call for condition reports of State member banks. There was inclosed with the letter the following statement of waiver provisions which superseded those contained in the instructions for preparing reports of affiliates and holding company affiliates of member banks as revised in August 1935:

"WAIVER OF REQUIREMENT FOR REPORTS OF AFFILIATES

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"Pursuant to section 21 of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System waives the requirement for the submission of reports of affiliates (other than of holding company affiliates, as defined in section 2(c) of the Banking Act of 1933, as amended,) of State bank members of the Federal Reserve System, except:

- (a) When indebtedness, if any, of the affiliate to the member bank has been carried for more than 6 months in the 12 months preceding the report date as an asset on the bank's books at a value in excess of 1 percent of the bank's capital and surplus or \$5,000, whichever is the smaller, regardless of whether the affiliate is so indebted on the report date.
- (b) When, on the report date, the affiliate is indebted to the member bank, or the member bank owns obligations of, or stock or other evidences of ownership in, the affiliate, and the aggregate amount of such indebtedness, obligations, stock, or other evidences of ownership is carried as an asset on the bank's books at a value in excess of 1 percent of the member bank's capital and surplus, or \$5,000, whichever amount is the smaller.

"The Board of Governors of the Federal Reserve System also waives the requirement for the submission of reports of affiliates in all cases where the affiliate relationship is based solely on ownership or control of any voting shares of the affiliate by a member bank as executor, administrator, trustee, receiver, agent, depository, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member banks.

"The above provisions with respect to the waiving of the requirements for submission of reports of affiliates are subject to change whenever deemed advisable by the Board of Governors of the Federal Reserve System in order to require the submission of reports which are necessary to disclose fully relations between member banks and their affiliates and the effect thereof upon the affairs of member banks."

Approved unanimously.

Letter to Mr. Gough, Deputy Comptroller of the Currency, reading as follows:

"Referring to a telephone conversation between Mr. Horbett of the Board's Division of Bank Operations and Mr. Bentley of

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"your Organization Division, it is understood that it is the custom of the Comptroller's office to furnish organizers of national banks with blank forms for use in applying for Federal Reserve bank stock, Form 30 in the case of primary organizations and Form 30a in the case of State banks converting into national banks. Since these forms have been revised, incident to the revision of the Board's Regulation I, we are sending to your Organization Division, under separate cover, 500 copies of each of the two forms.

"Under the new procedure adopted by the Board, applications for issuance and cancelation of Federal Reserve bank stock will be handled at the Federal Reserve banks without being forwarded to the Board for approval. Therefore, only two copies, instead of three as at present, of the application forms need be furnished to organizing national banks, a copy to be retained by the organizing bank and the original to be forwarded to the Federal Reserve bank of the district in which the organizing bank is located.

"As you know, revised Regulation I, which relates to the issuance and cancelation of Federal Reserve bank stock, does not become effective until January 1, 1936, and accordingly the revised forms should not be used before that time. If, however, any organizing national banks that are furnished with the present forms this year do not submit their applications until next year, the Federal Reserve banks need not, so far as the Board is concerned, request that new applications be submitted on the revised forms."

Approved unanimously.

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

"This refers to your letter of November 18, 1935, with inclosures, regarding the imposition by member banks in Austin, Texas, of charges for the collection of checks on out-of-town banks.

"It is noted that in your letter of November 12, 1935, to Mr. Walter Bremond, Jr., President of the Austin Clearing House Association, you specifically requested advice as to whether or not the banks in Austin, Texas, observe the limit of ten cents per hundred dollars fixed by section 13 of the Federal Reserve Act. In his letter in reply, dated November 16, 1935, Mr. Bremond states that the clearing house banks in Austin 'charge 4¢ per check for handling out-of-town items for customers, and for those who do not keep accounts it has been customary to make a charge of 25¢ per hundred.'

"Where several checks are presented at one time, the imposition of a flat charge of four cents per check totaling more than

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"ten cents per hundred dollars or fraction thereof, based on the total amount of the checks presented, would appear to constitute a violation of the law. A charge of twenty-five cents per hundred dollars for collecting checks for non-customers would also appear to be in violation of the statute.

"In the circumstances, it will be appreciated if you will again communicate with the President of the Austin Clearing House Association, or with the clearing house banks themselves, as you may deem best, and request that such steps be taken as may be necessary in order to bring the practices of member banks in Austin into conformity with the provisions of the law on this subject. Please advise the Board of the result of your efforts to obtain a correction of the practices of the Austin member banks in this regard."

Approved unanimously.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Pursuant to executive order issued by President offices of Board will be closed at 1:00 p. m. on Tuesday, December 24, and Tuesday, December 31. Vaults at Bureau of Engraving and Printing will also be closed early and if you desire currency shipments on those dates please forward requests to reach Board not later than 10:30 a. m."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrell
Secretary.

Approved: W. S. [Signature]
Chairman.