

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 27, 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:

Letters to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and Mr. Fry, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, stating that the Board approves the establishment without change by the Boston bank on December 24, by the New York bank on December 23, and by the Richmond bank on December 26, 1935, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to the chairmen of all Federal reserve banks, reading as follows:

"At the October Governors' Conference it was voted that it was desirable that meetings of the boards of directors of the twelve Federal reserve banks be held on the same day, and that the Board of Governors of the Federal Reserve System be asked to arrange with the several Federal reserve banks for uniformity in this regard; the new arrangement to become effective after February 1, 1936. This action was taken in the light of the amendment to the Federal Reserve Act which requires each Federal reserve bank to establish rates of discount every fourteen days, or oftener if deemed necessary by the Board.

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"In this connection it may be noted that the boards of directors of six of the Federal reserve banks meet only once a month, three twice a month, two every two weeks and one each Thursday. Eliminating shifts in meeting dates because of holidays, the meetings of four of the banks are held on Thursday, three on Wednesday, three on Friday, one on Monday and one on the 7th of the month.

"It is assumed that the action of the Governors' Conference has been or will be brought to the attention of the directors of your bank and the Board will be interested in receiving advice from you as to their reaction to the suggestion of a uniform meeting date."

Approved unanimously.

Letter to Governor Harrison of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the continuation of the assignment of Mr. Charles E. Diringer, whose regular position is Chief of the Coupon Collection Division, Collection Department, in directing the work of the Work Relief Checks Section for a further period of three months from December 20, 1935."

Approved unanimously.

Letter to Governor Geery of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the recommendation contained in Mr. Larson's letter of December 17 that the temporary assignment of Mr. Samuel E. Millett to the position of Coin Teller, Currency and Coin Department, at an annual salary of \$2,200, which is \$100 in excess of the maximum salary provided for this position, be continued for an additional period of six months from August 5, 1935."

Approved unanimously.

Letter to Governor McKinney of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors of the Federal Reserve System approves the recommendation contained in Mr. Coleman's letter

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"of December 16 that the temporary assignment of Mr. L. O. Moore, Jr., to the position of Senior Clerk, Collection Division, Houston Branch, at an annual salary of \$1,920, which is \$120 in excess of the salary range provided for the position, be continued for an additional period of six months from December 20, 1935."

Approved unanimously.

Memorandum dated December 21, 1935, from Mr. James submitting a letter dated December 12 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 a change in grade and an increase in salary range for the position of Assistant Chief in the Credit Division of the Credit Department, and for the creation of the new positions of Statistician in the Foreign Exchange Division of the Foreign Department, and Law Clerk in the Legal Department. The memorandum stated that the proposed changes and the reasons therefor, as indicated in Mr. Sailer's letter, had been reviewed and recommended that they be approved.

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has received your letter of December 23, 1935, advising of the reappointment of Messrs. John T. Moore, W. H. Glasgow, and A. F. Bailey as Managing Directors of your Louisville, Memphis, and Little Rock branches, respectively, for the year 1936, and of Messrs. Wm. R. Cobb and Willis Pope as directors of your Louisville and Memphis branches, respectively, each for a term of three years beginning January 1, 1936.

"It is noted from the last paragraph of your letter that action was deferred until after February 1, 1936 on the appointment of a director at your Little Rock branch for the term beginning January 1, 1936, in the hope that the new Board will amend the provision of the regulations with respect to branch directors so as to permit the reappointment of Mr.

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"Stuart Wilson, who has already served eleven years as a director of the branch and whose term expires on December 31, 1935, and who your board of directors feels should be reappointed."

Approved unanimously.

Letter to the board of directors of the "American State Savings Bank", Lansing, Michigan, 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 'American State Savings Bank', Lansing, Michigan, 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 Michigan for his information.

"The report of examination as of October 21, 1935, indicates that title to the bank building rests with the trustees for the waiving creditors, and that the bank's investment in banking house and furniture and fixtures is subject to adjustment inasmuch as a determination has not been made as to the value at which such assets will be taken over by the reorganized bank. The information submitted indicates that a settlement of this matter will be made prior to the admission of the bank to membership and it is assumed that you will satisfy yourself that the values established for such assets are sound and that the bank will acquire title to the assets at not more than the values so established.

"In order that the Board's records covering the reorganization of this bank may be complete, it will be appreciated if you will forward a copy of the 'Voting Trust Certificate' which was issued to each of the stockholders of the bank who executed the so-called voting trust agreement."

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Letter to Mr. Ewing W. Graham, Associate, T. Harris Smith and Associates, Philadelphia, Pennsylvania, reading as follows:

"This refers to your letters dated July 22nd and September 7th, 1935, and to the Board's letters of acknowledgment dated August 7th and September 11th, 1935, regarding the question whether section 19 of the Federal Reserve Act and the Board's Regulation Q make it unlawful for a member bank of the Federal Reserve System to give a free premium, such as a fountain pen, check protector, or similar item, to prospective customers as an inducement for them to open demand accounts, or to give such premiums to existing customers as an inducement for them to build up their demand deposit balances to a certain minimum.

"As you know, section 19 of the Federal Reserve Act, as amended by section 324 of the Banking Act of 1935, provides that no member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand, with certain exceptions not here material. Section 19 also authorizes the Board to determine what shall be deemed to be a payment of interest for the purposes of such section, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the section and prevent evasions thereof. The Board has recently revised its Regulation Q, effective January 1, 1936, in order to make it conform to the provisions of the amended law, and, in section 1(f) of such regulation has defined the term 'interest' as a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of an out-of-pocket expense. A copy of such regulation is inclosed herewith.

"In the opinion of the Board, the giving of a premium, such as a fountain pen, check protector, or similar item, for the purpose stated in the first paragraph of this letter would be the furnishing of a thing of value, involving the payment by the bank of an out-of-pocket expense, as consideration for the use of the funds constituting a deposit, and, therefore, would constitute the payment of interest on a demand deposit in violation of the prohibition contained in section 19 of the Federal Reserve Act and the recent revision of Regulation Q."

Approved unanimously.

Letter to Mr. W. A. Cottingham, Cashier, The Alabama National Bank, Montgomery Alabama, reading as follows:

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"This refers to your letter dated December 14, 1935, in which you request advice as to whether your bank is required by the provisions of Regulation Q, as revised effective January 1, 1936, 'to make an exchange charge to the local Farm Credit Corporation, which is an arm of the United States Government.' You state that the Montgomery Production Credit Corporation has advised you that it has no provision for the paying of exchange and your bank has for that reason waived such charges.

"In view of the fact that neither the provisions of section 19 of the Federal Reserve Act nor the provisions of the recent revision of Regulation Q relating to the payment by member banks of interest on deposits make any exception for production credit corporations, it is the opinion of the Board that a member bank may not lawfully pay or absorb exchange or collection charges, which involve out-of-pocket expenses, for such corporations having demand deposits with such bank.

"Of course, the provisions of Regulation Q, as recently revised, do not require your bank to make an exchange or collection charge to such corporations but merely require that, if an exchange or collection charge is made by another bank, such charge shall not be paid or absorbed by your bank but instead shall be passed on to your depositor. In other words, the recent revision of Regulation Q does not deal with charges made by your bank within the limits permitted by law (not exceeding ten cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, provided that no such charges shall be made against a Federal Reserve bank) but, instead, deals with charges imposed by other banks, and forbids the payment or absorption by your bank of such charges.

"For instance, if the Montgomery Production Credit Corporation deposited in its demand deposit in your bank a check for \$1000 drawn on a non-par bank which imposes an exchange charge of 1/10 of 1 per cent for paying checks drawn upon it and, if your bank forwarded such check to the drawee bank for collection, the non-par bank would remit to your bank \$999 in payment of the \$1000 check. If your bank gave the Montgomery Production Credit Corporation credit in its account for the full \$1000 and thus absorbed the \$1 exchange charge, such absorption would constitute the payment of interest on a demand deposit in violation of section 19 of the Federal Reserve Act and the provisions of Regulation Q, as recently revised.

"If you have any further questions regarding this matter or any similar matter, please communicate with the Federal Reserve Bank of Atlanta, which will be glad to answer your inquiries."

Approved unanimously.

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Letter to Mr. Frank Warner, Secretary, Iowa Bankers Association,
Des Moines, Iowa, reading as follows:

"This refers to your letter dated December 13, 1935, in which you present the question, submitted to you by a member bank, as to whether the maximum rate of 1 per cent per annum prescribed in section (3) of the supplement to Regulation Q, effective January 1, 1936, 'is the maximum rate that can be paid on savings deposits by those banks whose savings pass books call for a 60-day withdrawal notice, although the bank itself pays interest semi-annually on those savings accounts.'

"It will be noted that section (1)(A) of such supplement prescribes a maximum rate of $2\frac{1}{2}$ per cent per annum which may be paid by a member bank 'on any savings deposit.' Accordingly, if the savings deposit in question conforms to the definition of the term 'savings deposit' contained in section 1(e) of the revision of Regulation Q, effective January 1, 1936, the maximum rate of interest payable by a member bank on such deposit is $2\frac{1}{2}$ per cent per annum.

"The maximum rates prescribed in section (2) and section (3) of such supplement are applicable only to time deposits as defined in section 1(b) of such regulation and are not applicable to savings deposits as defined in section 1(e) of such regulation.

"It is believed that the above information will enable you to answer the inquiry received from the member bank. If you have any further questions with regard to this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of Chicago, which will be glad to answer your inquiries."

Approved unanimously.

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

"This refers to the voting permit application of 'Wisconsin Bankshares Corporation', Milwaukee, Wisconsin, and your letter of December 13, 1935, stating that you and the Executive Committee recommend that a general permit be granted, when and if the applicant shall have signed an agreement in form substantially as outlined by the Board in its letter of December 3, 1935 (X-9385).

"In view of the problems relating to management and financial condition of the applicant and other units in this group, the Board

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"does not feel that it will have sufficient time to consider the case adequately for a general voting permit before the next annual meetings of shareholders of the subsidiary member banks, and, accordingly, hereby authorizes you to issue a limited permit to Wisconsin Bankshares Corporation, entitling it to vote the stock which it owns or controls of the following member banks:

- 'The First National Bank of Berlin', Berlin, Wisconsin
- 'The Union National Bank of Eau Claire', Eau Claire, Wisconsin
- 'First-Fond du Lac National Bank', Fond du Lac, Wisconsin
- 'The Pioneer National Bank of Ladysmith', Ladysmith, Wisconsin
- 'The First National Bank of Madison', Madison, Wisconsin
- 'Badger State Bank of Milwaukee', Milwaukee, Wisconsin
- 'First Wisconsin National Bank of Milwaukee', Milwaukee, Wisconsin
- 'The First National Bank of Monroe', Monroe, Wisconsin
- 'First National Bank in Oshkosh', Oshkosh, Wisconsin
- 'The First National Bank of Portage', Portage, Wisconsin
- 'The First National Bank of Rice Lake', Rice Lake, Wisconsin

for the following purposes:

To elect directors of such banks at the annual meetings of shareholders, or at any adjournments thereof, at any time prior to April 1, 1936, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

"The permit shall be issued only after you have received a favorable recommendation from the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis regarding the issuance of the permit with respect to the subsidiary member banks in that district, and after you have received advice from the applicant, or other information satisfactory to you, showing:

- (a) that each of the applicant's subsidiary national banks has complied, in so far as in your judgment is practicable, with the recommendations or suggestions of the Comptroller of the Currency based upon the reports of examination of such bank made to him pursuant to authority conferred by law;
- (b) that each of the applicant's subsidiary State banking institutions has complied, in so far as in your judgment is practicable, with the recommendations or suggestions of the appropriate State supervisory authorities based upon the reports of examination of such bank made to them pursuant to authority conferred by law; and
- (c) that the applicant has substantially performed any agreement or agreements heretofore executed by it as

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"a condition to the issuance of a limited voting permit by the Board, or has used its best efforts to do so.

"Please have the limited voting permit authorized herein prepared by counsel for your bank in accordance with the form heretofore used. Upon the issuance of such permit please forward one copy thereof to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis and two copies to the Board for its records, together with a copy of any letter, telegram or memorandum submitted by the applicant or its subsidiary banks, or received from any other source, in response to any request which you deem necessary to make in connection with the above conditions, and advise the Board as to the facts which satisfied such conditions.

"The Board has authorized the issuance of this limited voting permit on the basis of the facts contained in its files and in reports of examination and files made available by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. If you are aware of any material facts or circumstances of which the Board has not been advised heretofore which raise any question as to the propriety of the issuance of the limited voting permit authorized herein, or if you feel that additional requirements should be made as a condition precedent to the issuance of a limited voting permit to the applicant, you are requested to furnish to the Board a full statement thereof and to withhold the issuance of the limited voting permit until you receive further instructions from the Board relative thereto."

Approved unanimously.

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

"This refers to Mr. Young's letter dated November 7, 1935, relating to the status of Chicago Joint Board, Amalgamated Clothing Workers of America, as a holding company affiliate under the provisions of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

"The Board has determined that such organization 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, such organization 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 organization advising

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"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 such organization. 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 Chicago Joint Board, Amalgamated
Clothing Workers of America, Chicago, Illinois,
reading as follows:

"This refers to the application of your organization for a voting permit entitling certain trustees to vote the stock which your organization owns or controls of Amalgamated Trust & Savings Bank, Chicago, Illinois, and to the general voting permit issued to your organization on September 27, 1934.

"The Board understands that Amalgamated Clothing Workers of America is an unincorporated labor union organized for the purpose of benefiting the working classes by improving working conditions, hours of labor, wages, etc. It is understood that Chicago Joint Board, Amalgamated Clothing Workers of America, is a subordinate organization chartered by Amalgamated Clothing Workers of America; that said joint board was formed by the local unions in Chicago and is authorized by the constitution of Amalgamated Clothing Workers of America to transact all such business for the local unions as may be provided in the by-laws of the joint board; that your organization has been and is operated solely for the same purposes as those stated above as the purposes of Amalgamated Clothing Workers of America; and that the control by your organization of Amalgamated Trust & Savings Bank, stock of which is held, directly or indirectly, by trustees for the benefit of the members of your organization, is incidental to the accomplishment of such purposes.

"In view of the above facts, the Board has determined that your organization 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, your organization is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

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"Of course, if the purposes for which your organization is operated or the nature of its activities should at any time be substantially different from the description thereof contained in this letter, 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.

"In view of the fact that your organization is no longer a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act, the general voting permit heretofore issued to your organization is void and of no effect. If your organization should later be determined by the Board to be a holding company affiliate subject to the provisions of law relating to voting permits, it would be necessary for your organization to obtain a new voting permit before it could lawfully vote the stock of a member bank."

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

"Reference is made to your letter of November 13, 1935, regarding paragraph THIRD of the agreement executed under date of June 30, 1934, by the Industrial Trust Company, Providence, Rhode Island, in connection with the issuance of a limited permit to such company to vote the stock which it owns or controls of The Mechanics National Bank of Providence, Providence, Rhode Island.

"It is understood that The Mechanics National Bank of Providence has outstanding 10,000 shares of common stock and 10,000 shares of preferred stock; that at the last election of directors of such bank 785 shares of common stock and 9,948 shares of preferred stock were voted; that Industrial Trust Company owns or controls 6,670 shares of the common stock of such bank; and that Industrial Trust Company did not vote any of its shares at the last election of directors of the bank. On the basis of the above facts, the Board is of the opinion that Industrial Trust Company is not now a holding company affiliate of The Mechanics National Bank of Providence, and, accordingly, the agreements executed by Industrial Trust Company in connection with the issuance of a limited voting permit to such company are no longer binding upon it.

"The Board is pleased to note that The Mechanics National Bank of Providence proposes to adopt a program of annual building amortization charges which, if carried through to conclusion, will entirely eliminate the carrying value of the bank building by 1978, and it is assumed that such a program will be adopted despite the fact that the agreement above referred to is no longer binding upon Industrial Trust Company."

Approved unanimously.

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

"This refers to copy of letter of December 17, 1935, addressed to you by C. R. Korb, Vice President of 'The Union Trust Company of Pittsburgh', Pittsburgh, Pennsylvania, requesting that paragraph lettered (D) be eliminated from the agreement prescribed in the Board's wire to you of December 9, 1935, authorizing the issuance of a general voting permit to The Union Trust Company of Pittsburgh, copy of which letter was recently left at the offices of the Board by your Mr. H. B. Flinkers for consideration. The paragraph (D) referred to was added to the prescribed agreement pursuant to suggestions of certain applicants for voting permits in order to make it entirely clear that in the event of disagreements between a holding company affiliate and any designated representative of the Board pertaining to certain matters the holding company affiliate should have a right to appeal to the Board. While it was not considered essential, it was incorporated for the protection of the holding company affiliates and was not intended to limit their rights or to give the Board any rights which it would not otherwise have. The Board has no objection to the omission of such paragraph from the agreement and, accordingly, the condition stated following the letter 'C' in the Board's telegram of December 9, 1935, authorizing the issuance of a general voting permit to The Union Trust Company of Pittsburgh is hereby modified by adding thereto the words 'except that paragraph lettered (D) of such agreement may be omitted if the applicant so desires'. Please advise The Union Trust Company of Pittsburgh accordingly."

Approved unanimously.

Letter to Mr. Ralph A. Bramhall, Treasurer, Union Safe Deposit and Trust Company of Delaware, Portland, Maine, reading as follows:

"This refers to your letter dated December 21, 1935, in which you request a permit to vote the stock which your corporation owns of The Portland National Bank, Portland, Maine.

"You state that your corporation owns 182 shares of preferred class B stock and 15 shares of common stock of such bank, and that it holds 329 shares of common stock represented by voting trust certificates. You state that, under the terms of the voting trust agreement, your corporation does not have the right to vote the 329 shares represented by the voting trust certificates.

"It is understood that The Portland National Bank has outstanding 8,500 shares of common stock and 24,250 shares of preferred stock, and that at the last election of directors of such

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"bank 7,051 shares of common stock and 23,376 shares of preferred stock were voted. On the basis of the above facts, it appears that your corporation is not a holding company affiliate of The Portland National Bank and, accordingly, no voting permit is necessary to enable your corporation to vote the stock which it owns or controls of such bank.

"There is inclosed herewith a copy of the Board's Regulation P in which the term 'holding company affiliate' is defined. It will be noted from such definition that no voting permit is required to vote the stock of a nonmember bank even though the corporation or other organization in question owns all of the stock of such bank. Accordingly, no voting permit is necessary to vote the stock which your corporation owns or controls of the Rumford Falls Trust Company, which is a nonmember bank.

"If you have any further question regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of Boston, which will be glad to answer your inquiries."

Approved unanimously.

Letter to Mr. J. D. Thomas, Vice President, The First National Bank of Piedmont, Piedmont, West Virginia, reading as follows:

"This refers to your letter of October 18, 1935, inclosing a copy of a trust agreement and inquiring whether the trustees under such agreement must obtain a voting permit in order to vote the stock which they hold of your bank.

"Section 5144 of the Revised Statutes of the United States relating to the voting of stock of national banks provides in part as follows:

"* * * (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association."

"Section 2(c) of the Banking Act of 1933 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 --

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"(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.'

"It appears that the trust agreement in question was entered into in connection with the plan under which Davis National Bank was consolidated with your bank, and the depositors and creditors of such banks waived 25 per cent of their claims; that substantially all of the stock of your bank was conveyed to three trustees who are to collect the dividends thereon for the benefit of waiving depositors and creditors until such time as their claims are paid in full; that the trustees have the right to vote such stock and, subject to certain conditions, may sell the stock; and that certain undesirable assets of the two banks were conveyed to the trustees to be liquidated for the benefit of the waiving depositors and creditors.

"It does not appear that, under the terms of the trust agreement, the trustees constitute an organization having the essential characteristics of a 'corporation, business trust, association, or other similar organization' which might be a holding company affiliate under the provisions of section 2(c) of the Banking Act of 1933 quoted above. Accordingly, it is not necessary for such trustees to obtain a voting permit in order to vote the stock which they hold of your bank. 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.

Letter to Mr. Charles E. Henry, Cashier, The First National Bank, Navasota, Texas, reading as follows:

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"Receipt is acknowledged of your letter of December 13, 1935, relating to the voting of 110 shares of the stock of your bank owned by The Norwood Investment Co. and requesting the Board's 'permission to get a Norwood investment proxy to vote this 110 shares in the approaching stockholders' election of the bank, under Section 301, Banking Act of 1935'.

"Section 5144 of the Revised Statutes of the United States relating to the voting of stock of national banks provides in part as follows:

'* * * (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association.'

An organization which controls stock of a national bank need not, in order to vote such stock, obtain a voting permit unless it is a holding company affiliate of the bank.

"Section 2(c) of the Banking Act of 1933 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

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"quoted above. There is no occasion for any action by the Board pursuant to that paragraph except with respect to an organization which would otherwise be a holding company affiliate and, while it is impossible to make a definite ruling in the absence of further information, it appears quite improbable that The Norwood Investment Co. is a holding company affiliate of your bank under the provisions of the preceding paragraphs of section 2(c).

"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. If, after consideration of the facts of your case in the light of such regulation and the statutory provisions set out in the appendix thereto, you have any further question concerning the matter, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of Dallas.

"In connection with the voting of the stock of your bank by proxy, your attention is directed to the following provisions of section 5144 of the Revised Statutes of the United States:

'Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; * * *.'

Approved unanimously.

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

"The Board recently, upon the request of a State member bank, excepted from the prohibitions of condition of membership numbered 12, set out in the Board's letter of March 11, 1933, (X-7356), mortgages covered by insurance under the provisions of the National Housing Act. At the same time the Board granted similar exceptions to all State member banks subject to such condition of membership. In this connection, your attention is invited to footnote 11 of the Board's Regulation H, revised effective January 1, 1936, in which it is provided, in the case of State banks admitted to membership after the effective date of the regulation, that condition of membership numbered 3 (subsection (a) of section 6) does not apply to the sale of mortgages covered by insurance under the provisions of the National Housing Act.

"Accordingly, you are requested to advise all State member banks in your district which are subject to condition of membership numbered 12, or any condition to the same general effect,

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"that such condition does not apply to the sale of mortgages covered by insurance under the provisions of the National Housing Act."

Approved unanimously.

Letter to the governors of all Federal reserve banks, reading as follows:

"The Board in its letter, X-9051, of December 26, 1934, authorized the Federal Reserve banks to make a special contribution to the Retirement System for the purpose of increasing the annuity to which an employee 65 years of age or over may be entitled under the Rules and Regulations of the Retirement System to \$30 a year for each year of service up to 16 years, and in its letter X-9254, of July 1, 1935, authorized the payment of a dismissal wage to employees involuntarily separated from the service.

"It is believed that a retirement allowance of \$480 a year thus authorized in the case of an employee with 16 years of service or more is inadequate under circumstances frequently prevailing and that a dismissal wage of up to 6 months' salary is insufficient in the case of employees with extended service. Accordingly, in cases of involuntary separation of employees from the service through no fault of their own where a supplementary retirement allowance or a dismissal wage is thought to be justified, your bank is authorized,

(a) to pay in its discretion a dismissal wage of 10% of terminal salary for each year of service up to 5 in the case of any employee involuntarily separated from the service and in the case of an employee with at least 10 years of service and under age 55 to pay in addition 3% of terminal salary for each year of service in excess of five. Such payment may be a cash payment in a lump sum, or in not to exceed 6 monthly payments, in the case of employees under age 65 with less than 10 years of service. In all other cases payment shall be made to the Retirement System for the purpose of providing, together with the employee's own contributions, an annuity beginning at or after age 55, except that not to exceed an amount equal to 2 months' salary may be paid to the employee as a cash payment at the discretion of the Federal Reserve Bank if the employee is under age 55 and therefore not eligible to receive an immediate annuity. In applying the above, the part of any salary in excess of \$12,000 shall be disregarded and no supplemental payment shall be made in such

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"amount as to increase the retirement allowance at age 65, or its equivalent, to more than 50 percent of terminal salary, or to give an employee under age 55 an annuity of greater actuarial value than he might be granted if he were 55 years of age, and

(b) in the case of an employee involuntarily separated after attaining age 55 to make in its discretion in lieu of the additional contributions authorized in paragraph (a) above a special contribution to the Retirement System sufficient to increase the regular retirement allowance to which the employee is entitled if 65 years of age or more, or to which he would be entitled at age 65 if under such age, to a retirement allowance on a straight life basis equal to \$4.50 for each month of service up to 15 years, or to the actuarial equivalent thereof under any option offered by the Retirement System that the employee may select. Such retirement allowance in the case of an employee under age 65 shall be deferred to age 65 or be converted into an immediate annuity of equal actuarial value, and be reduced by 5% for each year the employee may lack of having attained age 60.

"In computing service for the purpose of determining the retirement allowance that may be granted at the rate of \$4.50 a month for each year of service up to 15 years, all service to date of retirement may be counted, even though a portion of such service may not be creditable service as defined in Section 1 of the Rules and Regulations of the Retirement System.

"Authority contained in the Board's letters X-9051 of December 26, 1934, and X-9254 of July 1, 1935, to make special contributions to the Retirement System for the purpose of providing supplementary retirement allowances for employees retired at or after age 65 and to pay dismissal wages to employees involuntarily separated from the service is hereby rescinded."

Approved unanimously, together with a letter to Governor Norris of the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letters of November 9 and December 3 with respect to the retirement of employees of your bank who are over 65 years of age.

"In the case of 8 of the 17 employees that your bank proposes to retire it appears that you wish to provide annuities in excess of those authorized by the Rules and Regulations of the Retirement System as supplemented by the additional contributions which the Board authorized the Federal Reserve banks to make in its

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"letter X-9051 of December 26, 1934, and its letter X-9251 of July 1, 1935.

"With respect to your request that the bank be authorized to make additional payments direct to these 8 employees, the Board asked Mr. Rounds, Chairman of the Executive Committee of the Retirement System to inquire of Mr. Buck, Actuary, whether this would be a practical procedure. Mr. Buck feels that it would be a mistake for the Federal Reserve banks to make contributions direct to retired employees, particularly under the circumstances set forth in your letter, which contemplates changing the amounts paid direct to the retired employees upon a change in their status with respect to dependents, outside income, etc. The Board concurs in this view as expressed by Mr. Buck and is of the opinion that all payments made to retired employees should be made through the Retirement System under the conditions provided by the Rules and Regulations of the Retirement System.

"A careful review has been made of the retirement allowances provided by the Rules and Regulations of the Retirement System, supplemented by the additional contributions which the Board has authorized the banks to make for the purpose of increasing these retirement allowances, in the light of the facts brought out in your letters and in the study prepared by the bank with respect to the minimum amounts necessary to provide a health and decency budget for one, two, three and more persons living in Philadelphia, a copy of which was inclosed with Mr. Sinclair's letter of November 19, 1935, to Mr. Smead.

"The Board is of the opinion that the retirement allowances provided by the Rules and Regulations of the Retirement System as augmented by authorizations heretofore granted by the Board are insufficient in the case of some of the lower paid employees and has approved a plan whereby the Boards of Directors of the Federal Reserve banks are authorized, in their discretion, to make such additional contributions to the Retirement System as may be necessary to increase the regular retirement allowance to which an employee 65 years of age or more is entitled to a retirement allowance on a straight life basis equal to \$4.50 for each month of service up to 15 years. This will make it possible for the bank to retire an employee who has attained age 65 with a retirement allowance of \$810 a year in any case where the regular retirement allowance would be less than that amount. This is somewhat under the maximum amount proposed in your letters of November 9 and December 3, but under the circumstances represents what seems to be fair and reasonable."

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

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"Reference is made to your letter of December 20. Amount to be used as basis for determining 2% payment is total amount of funds received from Secretary of Treasury as of December 31, 1935. Amount charged surplus (Section 13b) at the end of 1934 should not be restored from 1935 earnings and such earnings should be distributed without any reference to amounts previously charged to surplus (Section 13b). Reserve for losses on industrial advances should be deducted from earnings on industrial advances prior to determination of portion of such earnings to be treated as earnings on funds received from Secretary of Treasury. If bank desires at end of any year to provide reserve for losses on industrial advances in excess of earnings on such advances, suggest that 'Reserves for losses not elsewhere provided for' be increased sufficiently for purpose but that all losses sustained on industrial advances be handled in accordance with provisions of Board's letter, B-1120, of December 13, 1935. While no formal ruling has been made it is understood that 2 percent payments to Secretary of Treasury are not to be regarded as return of part of payments received from Secretary but as annual charges, if earned, on total payments received from Secretary of Treasury."

Approved unanimously.

Telegram to Mr. Walden, Deputy Governor of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with provisions of paragraph (a) of Section 3 of revised Regulation D, Board approves recommendation contained in your December 24 wire that the weekly reserve computation period for reserve city banks in your district located outside the Federal Reserve bank and branch cities, namely, in Washington, D. C., end on Friday instead of Thursday as at present, such change to be effective with the report period ending Friday, January 3, 1936."

Approved unanimously.

Memorandum dated December 23, 1935, from Mr. Vest, Assistant General Counsel, stating that Mr. Logan, General Counsel of the Federal Reserve Bank of New York, had called him on the telephone and stated that Governor Harrison desired to have a copy of a memorandum written by him when he was Assistant Counsel to the Federal Reserve Board regarding the right of the Board to restrict the rediscount by Federal reserve banks of acceptances

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based upon the export of munitions of war; that Mr. Logan had advised that the recent investigation of certain documents among the records of the Federal Reserve Bank of New York by representatives of the Senate Munitions Committee had indicated that it would be desirable to have their records on this matter as complete as possible; and that the memorandum desired by Governor Harrison was not requested by the representatives of the Committee, but that Governor Harrison desired to have a copy of it. The memorandum also stated that he knew of no reason why a copy of the memorandum should not be sent as requested although it bears on its face the word "Confidential". The memorandum also submitted a draft of a letter to Mr. Logan enclosing a copy of Mr. Harrison's memorandum. Mr. Morrill had noted on Mr. Vest's memorandum that Mr. Harrison's memorandum was included in the list of documents of which copies had been requested of the Board by the Senate Committee.

Approved unanimously.

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

"In his letter of March 14, 1935, in response to the request contained in the Board's telegram of March 5, 1935 (Trans. 2225), Mr. McRae submitted a list of 'Active Clayton Act Permits' for your district, and in that list he included the permit issued to Mr. Louis Curtis, Jr., on December 6, 1923, authorizing him to serve at the same time as a member of the firm of private bankers of Brown Brothers & Company, Boston, Massachusetts, and as a director of the Merchants National Bank, also of Boston, Massachusetts. However, it is not clear that this permit should have been regarded as still effective in view of the fact that the firm of private bankers to which it referred had merged with another firm

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"so as to form a different organization with a different name, which would indicate that there had been such a material change in the organization of the firm that the relationship should not be regarded as the same as that contemplated by the Board in granting its permission.

"As you know, if the permit was not effective on the date of the enactment of the Banking Act of 1935, Mr. Curtis may not continue to be a director of the national bank and a partner of the firm until February 1, 1939 if, as appears to be the case, such relationships would be prohibited by the other provisions of section 8 of the Clayton Act.

"However, before the Board reaches a decision regarding the matter, it will be appreciated if you will give further consideration to the question in the light of such information as may be available to you, and furnish the Board with your comments. A copy of this letter has been sent to the Federal Reserve Agent at New York for his information."

Approved unanimously, together with a similar letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. S. C. C. C.
Chairman.