

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 6, 1936, at 11:30 a. m.

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

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

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as at the close of business on December 31, 1935, and that, in accordance with the usual practice, a call was made on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was unanimously approved.

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letter to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, stating that the Board approves the establishment without change by the bank on December 31, 1935, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to the board of directors of the "Pomeroy State Bank", Pomeroy, Washington, 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 San Francisco.

Approved unanimously.

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

"As you know, the Board has heretofore had under consideration the question whether State banks which have issued to certain depositors certificates which are payable after other claims of depositors and other creditors shall have been provided for but which are payable before the payment of any dividends or distribution of any assets of the bank to its stockholders are eligible for admission to membership in the Federal Reserve System. In this connection, please see Board's letter of September 21, 1933 (X-7598).

"The Board recently had occasion to reconsider this question on the basis of an application for membership where the bank involved had issued and outstanding certificates of the kind described above, and admitted the bank to membership subject to the following condition, among others:

18. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding a legend reading substantially as follows:

Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Certificates of Beneficial Interest issued by the bank to depositors who waived the payment of a part of their deposits at the time of the reorganization of the bank in 1933 pursuant to a Depositors Agreement, a copy of which is on file with the  
, must be paid.

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 18, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Certificates of Beneficial Interest to the rights of stockholders.)

"It is the view of the Board that, in acting on applications for membership, any obligation of a bank on certificates of the kind referred to above should not be included in determining whether or not the capital of the bank is impaired. Accordingly, you are advised of the action which was recently taken by the Board for your guidance in connection with any similar cases which may arise in your district."

Approved unanimously.

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Letter to Mr. Fry, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"This refers to the Board's letter of this date (X-9418) relating to the eligibility for membership of State banks which have issued deferred certificates to certain depositors. The application of the Calvin B. Taylor Banking Company of Berlin, Maryland, which issued such certificates, has been held in abeyance pending determination of the question of eligibility of such banks.

"Inasmuch as the report of examination submitted with the application of the Calvin B. Taylor Banking Company of Berlin was as of September 13, 1933, further consideration of the application will be deferred pending receipt of a current report of examination and your recommendation based thereon. It is suggested, also, that a new application be obtained on the revised forms. If this be done, it will not be necessary to duplicate any of the documents previously submitted to the Board regarding the bank's organization and reorganization.

"You will recall that the Bank Commissioner of the State of Maryland appeared before the Board on the question of eligibility involved in the application of the Calvin B. Taylor Banking Company of Berlin, and it is also suggested that you advise the Bank Commissioner of the Board's views as expressed in its letter (X-9418)."

Approved unanimously.

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

"This refers to the Board's letter of this date (X-9418) relating to the eligibility for membership of State banks which have issued deferred certificates to certain depositors. In this connection, there is inclosed a copy of a letter addressed to the Board by The Sandwich State Bank, Sandwich, Illinois, under date of January 22, 1934, together with inclosure, relating to the question involved in the Board's letter (X-9418). The Board has not replied directly to the letter of The Sandwich State Bank, but it is requested that you take up with the bank the question of its eligibility for membership and advise the institution in the light of the views expressed by the Board in its letter (X-9418)."

Approved unanimously.

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

"This refers to the Board's letter of this date (X-9418) relating to the eligibility for membership of State banks which have issued deferred certificates to certain depositors. Reference is also made to Mr. Young's letter of February 7, 1935, and previous correspondence relating to the eligibility of the Valley Savings Bank, Des Moines, Iowa, for membership in the Federal Reserve System. It is assumed that you will now advise the Valley Savings Bank in the light of the Board's views as expressed in its letter X-9418. It has been noted from Mr. Young's letter of February 7, 1935, that you had received a formal application for membership from the Valley Savings Bank, but, in view of the period of time which has elapsed since such application was submitted, it is suggested that you consider the desirability of obtaining a new application from the bank, together with current information as to its condition, before submitting the application to the Board."

Approved unanimously.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to the Board's letter of this date (X-9418) relating to the eligibility for membership of State banks which have issued deferred certificates to certain depositors. The application of the Bank of Fairfield, Fairfield, Washington, which issued such certificates, has been held in abeyance pending determination of the question of eligibility of such banks.

"Inasmuch as the report of examination submitted with the application of the Bank of Fairfield was as of March 5, 1934, further consideration of the application will be deferred pending receipt of a current report of examination and your recommendation based thereon. It is suggested, also, that a new application be obtained on the revised forms. If this be done, it will not be necessary to duplicate any of the documents previously submitted to the Board regarding the bank's organization and reorganization."

Approved unanimously.

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Letter to Mr. Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"Mr. John Nichols, Chief, Examining Division, of the Federal Deposit Insurance Corporation, has advised that you have received the following telegram from Mr. Strain, Superintendent of Banks for the State of South Dakota:

'My examiners making examination of Farmers State Bank, Flandreau, South Dakota, joint with examiners for Federal Reserve Bank of Minneapolis. Find considerable shortage in accounts and examiners still checking. Believe advisable your examiner join in audit. I want to cooperate with you and hope to (sic) accept this invitation to send your representative to Flandreau.'

"The Farmers State Bank, Flandreau, South Dakota, is a member of the Federal Reserve System. In view of the circumstances, the Board of Governors of the Federal Reserve System, in accordance with the provisions of subsection (k) (2) of Section 12B of the Federal Reserve Act, hereby grants written consent for the participation by examiners for the Federal Deposit Insurance Corporation in the examination of the Farmers State Bank of Flandreau, South Dakota, in accordance with the request of the Superintendent of Banks of that State."

Approved unanimously.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him, on condition that prior to the issuance of the limited voting permit the Assistant Federal reserve agent shall satisfy himself that each of the applicant's subsidiary banks has complied insofar as in his judgment is practicable, with the recommendations or suggestions of the Comptroller of the Currency with respect to national banks and the appropriate State supervisory authorities with respect to State banking institutions, based upon reports of examinations of such banks made pursuant to authority conferred by law, to issue a limited voting permit to the "Yakima Holding Corporation",

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Yakima, Washington, entitling such organization to vote the stock which it owns or controls of "The First National Bank of Wapato", Wapato, Washington, at any time prior to April 1, 1936, to elect directors of such bank at the annual meeting of shareholders, or at any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank. The telegram requested that the agent furnish the Board with copies of any letters or other data received in response to requests for information in connection with the condition set forth in the telegram.

Approved unanimously.

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

"This refers to your letter dated December 10, 1935, with reference to the question whether a member bank is required to terminate or modify certificates of deposit of indefinite maturity, of the type inclosed in your letter, in order to conform to the provisions of the supplement to Regulation Q, as revised effective January 1, 1936.

"It is understood that the certificate to which you refer is payable at any time upon 31 days' written notice of intended withdrawal. The certificate contains the following provisions: 'Interest payable for full months only at two per cent per annum, if left six months or longer.'

"In its letter dated September 27, 1933 (X-7622) the Board stated that it is the duty of a member bank to terminate or modify a certificate of deposit of indefinite maturity as soon as possible so as to bring it into conformity with the provisions of Regulation Q. Such letter also contained the following paragraph:

'Unless, therefore, there is some provision in the certificates of deposit to which you refer which would indicate an intention of the parties that the bank may not terminate the contract contained in such a certificate at its option and without liability, it is suggested that you advise

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"member banks in your district which have such certificates outstanding that they should terminate or modify such certificates of deposit as above stated after giving reasonable notice to the depositors of their intention to do so."

"It seems possible that the provision in the certificate of deposit under consideration, to the effect that interest is payable upon the certificate only if the funds are left on deposit six months or longer, may indicate an intention of the parties that the bank may not terminate the contract contained in the certificate at its option and without liability prior to the expiration of such six months' period. Otherwise, the bank could keep the deposit for five months and then terminate the contract and escape from payment of interest for such five months' period.

"Without attempting to determine whether such an intention is indicated by the above-mentioned provision, the Board will offer no objection to the payment by a member bank on a certificate such as that inclosed in your letter, which was outstanding on December 1, 1935, of interest at the rate of two per cent per annum until the expiration of six months from the date on which the deposit was made."

Approved unanimously.

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

"This refers your telegram December 31 and Mr. Young's letter of same date regarding Bank Regulation Number 10 of Department of Financial Institutions of State of Indiana prescribing maximum rates of interest which may be paid on time and savings deposits by banks located in Indiana after January 31, 1936. In view of provisions of section 24 of Federal Reserve Act and Regulation Number 10 of Department of Financial Institutions, it is opinion of Board of Governors that rates of interest accruing after January 31, 1936, and during the period the regulation is legally in effect, which a national bank or other member bank located in Indiana may lawfully pay on time or savings deposits, may not exceed the rates prescribed in Regulation Number 10. Accordingly, it is requested that notice to this effect be given by you without delay to all member banks in your district located in Indiana calling attention to applicable provisions of section 24 of Federal Reserve Act and to subsection (c) of section 3 of Regulation Q, as well as to provisions of Regula-

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"tion Number 10 of the Department of Financial Institutions. The Board will not object to payment of interest by national banks at rates greater than rates prescribed in Regulation Number 10 in accordance with terms of, and until termination of, any contract existing on date on which such banks receive notice from you of limitations effective after January 31, 1936, provided such rates are otherwise in conformity with provisions of Regulation Q and contract is terminated as soon as possible under terms thereof. Please furnish Board two copies of any notification which you may send to member banks in Indiana in this connection."

Approved unanimously, together with a similar telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis.

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

"This refers to your letter of December 10, 1935, inclosing a copy of a letter from the American National Bank of Kalamazoo, Michigan. It appears that one of the directors of that bank, as provided in its by-laws, is required to serve as vice president; that the officer in question serves entirely without compensation, and is entirely inactive in the management of the bank, except as a director. You point out that this case is indicative of the various difficulties which some of the banks are going to have in complying with the Board's Regulation O if inactive vice presidents are included within the definition as contained in subsection (b) of section 1 of the Board's Regulation O.

"On the basis of the tentative draft of Regulation O which was forwarded to the Federal Reserve banks for suggestions and criticisms, the Board received a number of suggestions to the effect that inactive officers of member banks not be considered executive officers thereof for the purposes of section 22(g) of the Federal Reserve Act. At the time of its final action in promulgating Regulation O, the Board discussed these suggestions and gave careful consideration to the question whether it should exempt all inactive officers from its definition of the term 'executive officer'. However, since Congress made no distinction in section 22(g) between active and inactive officers, the Board did not feel that it should exclude inactive or honorary executive officers in defining the term 'executive officer'



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"pursuant to the authority vested in the Board by the law. Furthermore, a vice president of a member bank, although actually inactive in the management of the bank, nevertheless is in a position to exercise actively the duties of his office should occasion arise.

"The President of the American National Bank of Kalamazoo has stated that, as directed by the office of the Comptroller of the Currency, the by-laws of the bank require that a vice president of the bank shall be a member of the board of directors and that the vice president in question consented to assume that office to meet the requirements of the by-laws. In these circumstances, the bank may wish to give consideration to whether it should take up with the office of the Comptroller of the Currency the question whether there would be any objection to eliminating from its by-laws the requirement that a vice president of the bank shall be a member of the board of directors."

Approved unanimously.

Letter to Honorable Hiram W. Johnson, United States Senate, reading as follows:

"Reference is made to our letter of December 12 and to your communication of December 9 inclosing a letter from Mr. Wm. H. Mattox regarding his effort to get a loan for his company, the Shasta Snow Cone Machine Company from the Federal Reserve Bank of San Francisco.

"We are informed by the bank in response to our inquiry that at the request of Mr. Mattox, as indicated in his letter to you, the application of his company was not given formal consideration. It appears that in the preliminary discussion and investigation serious doubt arose as to whether the Company was actually established and technically eligible under the Act. Beyond this however, according to the bank, it was clearly indicated that the invested capital in the Company would not support an application in the amount of \$50,000. The bank's limited investigation did not indicate the exact amount the principals had invested in the Company but as far as the bank was able to learn the only tangible assets were approximately \$1,000 in cash, and machinery and equipment representing dies which were valued at \$5,000. We are further informed that the applicant's statement indicated other than this, patents, copyrights, etc., carried at a stated value of \$250,000 and that since the Company had never passed beyond the

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"experimental stage no operating figures were available.

"In the light of this information it appears probable that even if technically eligible under the Act the loan could not have been made on a reasonable and sound basis as required by section 13b of the Federal Reserve Act. It is regretted that favorable action on the application would apparently have been impossible, but there appear to be no grounds for further action by the Board in the matter. The fact that Mr. Mattox withdrew the application before formal consideration is no bar, of course, to his resubmitting it if he has additional information which he feels should be taken into account.

"The letter from Mr. Mattox which you forwarded to the Board is returned herewith."

Approved unanimously.

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

"Referring your January 2 wire our TRANS 2353 referred to distribution of expenses in functional expense reports only and was not intended to apply to charges on Form B-23. Inasmuch however as entries put through by your bank at end of year did not result in charging industrial loan expense with any part of prior service contributions for last half of 1935 and since you would prefer to let these entries stand without change, Board will offer no objection thereto."

Approved unanimously.

Letter to Mr. F. G. Awalt, Deputy Comptroller of the Currency, reading as follows:

"Pursuant to the request contained in your letter of January 2, 1935, there are being sent to your office 300 copies of each of the following regulations of the Board, which it is understood are to be furnished to the national bank examiners:

Regulation D	Reserves of Member Banks
Regulation H	Membership of State Banking Institutions in the Federal Reserve System
Regulation I	Increase or Decrease of Capital Stock of Federal Reserve Banks and Cancellation of Old and Issue of New Stock Certificates

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"Regulation O      Loans to Executive Officers of  
Member Banks  
Regulation P      Holding Company Affiliates - Voting  
Permits  
Regulation Q      Payment of Interest on Deposits  
and Supplement

"In accordance with your request, you will be furnished with a like number of any of the Board's regulations or amendments thereto which are issued in the future."

Approved unanimously.

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

"There is inclosed a copy of a letter dated September 16, 1935, from Mr. Louis C. George, secretary of The Fifth-Third Union Trust Company, Cincinnati, Ohio, requesting copies of the Clayton Act permits heretofore issued to Messrs. E. B. Stanley, C. H. M. Atkins, and R. K. LeBlond, to serve as directors of that bank and other institutions.

"A copy of the permit issued to Mr. E. B. Stanley on January 30, 1934, covering his services as director of The Fifth-Third Union Trust Company, Cincinnati, Ohio, and The First National Bank of Norwood, Norwood, Ohio, is inclosed for transmittal by you to Mr. George. The Board is unable to supply copies of permits issued to Messrs. Atkins and LeBlond as copies of the originals were not retained in its files.

"According to the Board's files Mr. C. H. M. Atkins made application to serve as president of The First National Bank of Norwood, Norwood, Ohio, as director of the Fifth-Third National Bank, Cincinnati, Ohio, and as director of the Brighton-German Bank, Cincinnati, Ohio; and the application was approved on or about October 5, 1916. It appears that the Brighton-German Bank is no longer in existence and that on February 23, 1927, The Fifth-Third National Bank was placed in liquidation and its business was taken over by the Union Trust Company, Cincinnati, Ohio, which at the same time changed its name to The Fifth-Third Union Trust Company. The ruling published in the Federal Reserve Bulletin for January 1925 beginning at page 28 does not appear to be applicable in this case, since it discusses the continuing effect of a permit after a consolidation or merger of two banking institutions. Accordingly, from the information available, it seems probable that the permit issued to Mr. Atkins did not cover his services as director of the Fifth-Third Union Trust Company after The Fifth-Third National Bank was placed in

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"liquidation. However, it seems possible that other questions may also be involved in the determination of the applicability of section 8 as amended to Mr. Atkins' relationships, and it is suggested that you defer advising him with respect thereto until you have had an opportunity of considering the matter in the light of the Board's revised Regulation L, which will probably be available to you in the near future.

"According to the records of the Board Mr. Richard K. LeBlond made application to serve as director of Union Savings Bank and Trust Company, Cincinnati, Ohio, and as director of The Fourth National Bank, Cincinnati, Ohio; and this application was approved on December 16, 1919. It appears that the Union Savings Bank and Trust Company changed its name to The Union Trust Company on August 14, 1923, and that its name was again changed to The Fifth-Third Union Trust Company after its absorption of the business of The Fifth-Third National Bank. It also appears that The Fourth National Bank went into voluntary liquidation on November 17, 1923, its business being absorbed by the Central Trust Company, Cincinnati, Ohio, which institution Mr. LeBlond appears to be now serving as a director. It would appear that the services of Mr. LeBlond with the two State institutions were not prohibited by Sections 8 and 8A of the Clayton Act and apparently he was lawfully serving these institutions on August 23, 1935, the effective date of the Banking Act of 1935. Accordingly, it appears that Mr. LeBlond may continue to serve the two State institutions until February 1, 1939.


"It will be appreciated if you will advise Mr. George, Secretary of The Fifth-Third Union Trust Company, Cincinnati, Ohio, with respect to the applicability of the Clayton Act, as amended, to the services of Messrs. Stanley and LeBlond at this time and with respect to the applicability of the Act to Mr. Atkins' services when you have had an opportunity of considering his relationships in the light of the Board's revised Regulation L and inform the Board of your findings and action in these matters."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
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 Chairman.

  
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 Secretary.