

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, January 14, 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

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, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Receipt is acknowledged of your letter of December 13, 1935, in which you outline the improvements made in the condition of 'The Easton Trust Company', Easton, Pennsylvania, and, as a result of such improvements, recommend that the Board now give final and favorable consideration, under the conditions of membership applicable to the institution, to the absorption in January, 1932, by that institution, of the Easton Dollar Savings and Trust Company, also of Easton. Final consideration of the transaction had previously been deferred by the Board in order to determine the progress made in the liquidation of the assets, which appeared to be of a slow character, and of the mortgage pool of the absorbed institution.

"From all the information available it appears that there will be no permanent impairment in the general condition of The Easton Trust Company as a result of the absorption, and that there will be no changes made in the scope of the functions exercised by it at the time of admission to membership. In view of such information, therefore, and in accordance with your recommendation, the Board will interpose no objection to the absorption, and you are requested to advise the trust company accordingly."

Approved unanimously.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve

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Bank of New York, reading as follows:

"This refers to Mr. Dillistin's letter of December 13, 1935, transmitting the application of 'The Byram National Bank of East Port Chester', East Port Chester, Connecticut, for permission to exercise full trust powers. It has been noted that your board of directors has recommended that this application be approved.

"It is understood that The Byram National Bank of East Port Chester has \$50,000 of common stock, \$25,000 of preferred stock and a surplus amounting to \$20,000, and that the present laws of the State of Connecticut require a capital of \$100,000 and a surplus of \$100,000 for the organization of similarly located State institutions with trust powers. In this connection, your counsel, in certifying that the bank has sufficient capital and surplus to render it eligible to receive permission to exercise trust powers, has referred to the following quoted excerpts from an opinion rendered by the Deputy Attorney General of the State of Connecticut under date of January 2, 1934:

'Nowhere in our law is there any intimation that any specific requirement as to capital and surplus is essential in order that a state bank and trust company or a private corporation duly authorized by a special act, may exercise fiduciary powers. It is the status of being a corporation and as such granted these powers as an incident to such incorporation that governs. When a bank or trust company is legally organized, regardless of its capital structure, it is clothed with the powers to act as fiduciary. And it is our opinion that a national banking association, like the one in mind, which satisfies the federal requirements as to capital structure, is entitled, so far as the State of Connecticut is concerned, to act as a fiduciary.'

"It is assumed that, in making the statements above quoted, the Deputy Attorney General had reference to the exercise of trust powers by State institutions previously organized with an amount of capital and surplus less than that required at the time for the organization of a new State institution with trust powers.

"Under the provisions of section 11(k) of the Federal Reserve Act, it is contemplated that national banks exercising trust powers shall be on a basis of equality with State institutions exercising trust powers. While the Board might lawfully grant trust powers to a national bank having a capital and surplus less than that required for the organization of State institutions with trust powers, where State institutions

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"previously organized are permitted to exercise trust powers with a less amount of capital and surplus, the Board has heretofore given careful consideration to this question and has taken the position that, in order to comply with the purposes of section 11(k), national banks applying for trust powers should be required to have the capital and surplus required at the time by the State law for the organization of State institutions with trust powers. Accordingly, it is the Board's practice to act upon applications of national banks for trust powers on this basis.

"In the circumstances, since, as stated above, the capital and surplus of the applicant bank are only \$75,000 and \$20,000, respectively, and the present laws of Connecticut require a capital of \$100,000 and a surplus of \$100,000 for the organization of similarly located State institutions with trust powers, the Board feels that it should not grant the bank the right to exercise the trust powers for which it has made application with its present amount of capital and surplus. However, if the bank increases its capital and surplus to the required amount, the Board will be glad to consider a new application from it for trust powers in view of all the circumstances then existing and you are requested to advise The Byram National Bank of East Port Chester accordingly.

"It has been observed that, under the laws of the State of Connecticut, the required amount of capital for the organization of State institutions with trust powers must consist of common stock. The Board has heretofore ruled that both the common stock and the preferred stock of a national bank may be included in determining whether such bank has the minimum capital necessary to obtain trust powers and, in this connection you may be interested in the following views expressed by the Board in a letter it addressed to the Deputy Secretary of Banking of the Commonwealth of Pennsylvania under date of December 6, 1934:

'It has been noted that under the laws of the State of Pennsylvania a prescribed amount of "common" capital stock is required for the organization of State institutions with fiduciary powers. In this connection, attention is called to the fact that section 305 of the Act of Congress of March 9, 1933 (48 Statutes at Large, 1) provides in part that "the term 'common stock' as used in this title means stock of national banking associations other than preferred stock issued under the provisions of this title. The term 'capital' as used in provisions of law relating to the capital of national banking associations shall mean the amount of

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"unimpaired common stock plus the amount of preferred stock outstanding and unimpaired." In view of this provision of law applicable to national banks, the Board feels that, in determining whether a national bank is eligible to receive permission to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act, both the common capital stock and the preferred capital stock of the national bank may be included in computing whether or not the bank has the required amount of "capital". In this connection, it is the opinion of the Board that the provision of section 11(k) of the Federal Reserve Act heretofore quoted has reference to the amount of capital required and does not have reference to any particular class of capital stock."

Approved unanimously.

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

"Receipt is acknowledged of your letter of December 30, 1935, with inclosures, regarding the rate of interest which may be paid on time and savings deposits by member banks in the State of Mississippi under the provisions of Supplement C to Regulations Bulletin No. 5 issued by the State Comptroller, Department of Bank Supervision of the State of Mississippi, under date of December 20, 1935.

"It is understood that Supplement C, referred to above, is applicable to all time and savings deposits, including Postal Savings deposits; but that it is not intended to alter the rate of interest accruing prior to January 1, 1936, which may be paid on Postal Savings deposits in accordance with the provisions of Supplement B to Regulations Bulletin No. 5 issued by the State Comptroller on July 1, 1935. It is understood, however, that the rate of interest payable on Postal Savings deposits is now under consideration by the State Comptroller and it will be appreciated if you will advise the Board with respect to any action which may be taken by him in fixing a maximum rate of interest payable on such deposits."

Approved unanimously, together with a similar letter to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

In connection with the above matter there was also approved unanimously the

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following letter to Mr. O'Connor, Comptroller of the Currency:

"There is inclosed herewith for your information a copy of a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of St. Louis by Mr. M. D. Brett, State Comptroller of the State of Mississippi, under date of December 22, 1935, regarding the rate of interest which may be paid on time and savings deposits by State banks in Mississippi under Supplement C to Regulations Bulletin No. 5 recently issued by the State Comptroller. There is also inclosed a copy of a circular letter sent by the Federal Reserve Agent at the Federal Reserve Bank of St. Louis, under date of December 28, 1935, to all member banks in Mississippi in Federal Reserve District No. 8 regarding the maximum rates of interest payable by such banks on time and savings deposits. A substantially similar circular letter was sent by the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, under date of December 28, 1935, to all member banks in Mississippi in Federal Reserve District No. 6.

"In this connection, there is also inclosed a copy of a letter which the Board addressed to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta under date of September 16, 1935, regarding the effect of previous regulations issued by the State Comptroller of Mississippi limiting the rates of interest payable upon time and savings deposits by State banks in Mississippi, together with a copy of circular letter sent by the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, under date of October 9, 1935, to member banks in Federal Reserve District No. 6, with respect to this matter. A substantially similar circular letter was sent by the Federal Reserve Agent at the Federal Reserve Bank of St. Louis, under date of October 10, 1935, to member banks in Federal Reserve District No. 8."

Telegram to Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, reading as follows:

"Replying your December 27 letter, the clause 'outstanding.....drafts drawn upon or other authorizations to charge the member bank's reserve account at the Federal Reserve bank' as used in paragraph (f) of Section 1 of Regulation D is intended to refer to cases (1) where a bank has received cash or its equivalent, for which it has paid with a Federal Reserve bank draft that has not had time to reach the Federal Reserve

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"bank and become a charge to the member bank's reserve account, and (2) where a bank has charged its depositors' accounts for items received from the Federal Reserve bank for collection and remittance but has not effected payment therefor because the draft drawn in payment therefor or other authorization to charge its reserve account has not had time to reach the Federal Reserve bank. Outstanding drafts drawn in payment for currency ordered from a Federal Reserve bank, or in payment for transfers of funds which a Federal Reserve bank has been requested to make for the account of a member bank, do not constitute deposit liabilities and should not be included in demand deposits."

Approved unanimously.

Telegram to Mr. Stewart, Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Replying your January 9 telegram, 'Amounts due to Federal Reserve bank (transit account)' in item 7 of Schedule J of December 31 call report should be understood as meaning the same as 'drafts drawn upon or other authorizations to charge the member bank's reserve account at the Federal Reserve bank' under sub-section (f) of Section 1 of Regulation D."

Approved unanimously.

Letter to Honorable Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, reading as follows:

"In response to a telephone request from Mr. Sparkman of your office, you are advised that, on the basis of reports of condition submitted by State bank members of the Federal Reserve System, the indebtedness of officers of such banks to their own banks amounted to approximately \$14,800,000 on December 31, 1934. This figure represents the aggregate direct liability of all officers as payers of obligations executed by them as individuals or as members of partnerships; it does not include any indirect liability as indorsers or guarantors, which it is understood is not needed for your purposes."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Mowley  
Secretary.

Approved:

W. S. ...  
Chairman.