

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, February 19, 1936, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Broderick  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom

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:

Letters to Messrs. Curtiss, Austin and Wood, Chairmen of the Federal Reserve Banks of Boston, Philadelphia and St. Louis, respectively, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Your letter February thirteenth. Board approves the use of the employees listed in your letter to lend clerical assistance to your regular examiners in examinations of State member banks. It is understood that none of these employees will be transferred permanently to examining work without Board's approval."

Approved unanimously.

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

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"The Board has noted the information in your letter of February 7 that the board of directors of the Federal Reserve Bank of Cleveland 'at its meeting today, unanimously elected Geo. W. Norris, President of the Federal Reserve Bank of Philadelphia, as a member of the Federal Open Market Committee, to represent the Federal Reserve Banks of Philadelphia and Cleveland, and also elected M. J. Fleming, President of the Federal Reserve Bank of Cleveland, alternate'. However, according to the information of the Board of Governors, the board of directors of the Federal Reserve Bank of Philadelphia has not elected a president for the Federal Reserve Bank of Philadelphia for the term beginning March 1.

"It is the opinion of the Board of Governors that the action taken by the directors of your bank is premature and the Board desires that the directors of your bank be so advised.

"In your letter you referred also to a resolution unanimously approved by your board of directors containing a recommendation to the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland that the representative and alternate elected by them be in Washington at the time of the meetings of the Federal Open Market Committee and that the alternate, if the principal is present, will act merely in an advisory capacity. The Federal Open Market Committee as created by Congress consists solely of the members of the Board of Governors and the five representatives of the Federal reserve banks and the only function of an alternate as prescribed by the statute is to serve in the absence of the representative for whom he is an alternate. Therefore, it is the opinion of the Board of Governors that it was not contemplated by Congress that an alternate should attend or participate in a meeting of the Federal Open Market Committee, except in the absence of the representative for whom he is the alternate.

"The Board will appreciate it if you will inform the members of your board of directors promptly of the contents of this letter."

Approved unanimously, together with a letter to the Chairmen of all Federal reserve banks, except Cleveland, advising of the Board's position as set forth in the above letter.

Letter to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, reading as follows:

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"Referring to your letter of February 13, the Board approves the reappointment by the Board of Directors of the Federal Reserve Bank of New York of Messrs. William H. Pouch, Arthur G. Nelson, Edward J. Noble and Herman K. Beach as members of the Industrial Advisory Committee for the year ending February 28, 1937.

"The Board also approves the appointment of Mr. Francis B. Reynolds, President of Columbia Mills, Inc., New York, New York, as a member of the Industrial Advisory Committee for the unexpired term (ending February 29, 1936) of Mr. John B. Clark, President of the Clark Thread Company, New York, New York, who recently resigned, and for a further term of one year ending February 28, 1937."

Approved unanimously.

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

"Referring to your letter of February 8, 1936, the Board approves the reappointment, effective March 1, 1936 of:

Mr. F. A. Smythe, President,  
Thew Shovel Company,  
Lorain, Ohio

Mr. Daniel R. Davies, President,  
Acme Machinery Company,  
Cleveland, Ohio

Mr. Edward C. Folsom, President,  
Ottawa River Paper Company,  
Railway Materials Company,  
Toledo, Ohio

and the appointment, effective March 1, 1936, of:

Mr. Geo. C. Brainard, President,  
General Fireproofing Company,  
Youngstown, Ohio

Mr. Dan C. Swander, President,  
Columbian Vise & Manufacturing Co.,  
Cleveland, Ohio

by the board of directors of the Federal Reserve Bank of Cleveland as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

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Letter to Mr. Keesee, Secretary of the Federal Reserve Bank of Richmond, reading as follows:

"Referring to your letter of February 14, the Board approves the reappointment, by the Board of Directors of the Federal Reserve Bank of Richmond, of Messrs. J. G. Holtzclaw, Walker D. Stuart, Overton D. Dennis, George E. Probest, Jr. and William L. Manning as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

Letter to Mr. Kettig, Deputy Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your February 14 telegram, the Board approves the reappointment, by the Board of Directors of the Federal Reserve Bank of Atlanta, of Messrs. A. R. Forsyth, A. M. Lockett, I. C. Milner, John E. Sanford and George Winship as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

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

"Referring to your letter of February 12, the Board approves the reappointment, by the Board of Directors of the Federal Reserve Bank of St. Louis, of Messrs. Wm. K. Norris, Jacob VanDyke, Maurice Weil, Henry S. Gray and M. E. Finch as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

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

"Referring to your letter of February 11, the Board approves the reappointment by the Board of Directors of the Federal Reserve Bank of Dallas of Messrs. Clarence Ousley, Lewis R. Ferguson, Chas. R. Moore, Will B. Marsh and T. M.

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"Cullum, as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

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

"Referring to your letter of February 6, the Board approves the reappointment by the Board of Directors of the Federal Reserve Bank of San Francisco of the following, as members of the Industrial Advisory Committee for the year ending February 28, 1937:

Mr. Ralph Burnside  
Vice President, Eatonville Lumber Company  
Eatonville, Washington

Mr. Shannon Crandall  
President, California Hardware Company  
Los Angeles, California

Mr. Henry D. Nichols  
Vice President, Tubbs Cordage Company  
San Francisco, California

Mr. Stuart L. Rawlings  
Vice President, Calaveras Cement Company  
San Francisco, California

Mr. William G. Volkmann  
Secretary, A. Schilling & Company  
San Francisco, California"

Approved unanimously.

Letter to the board of directors of the "Warren Bank and Trust Company", Warren, Pennsylvania, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation "H" and the following special conditions, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

"7. Such bank shall make adequate provision for depreciation

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"in its furniture and fixtures.

- "8. Such bank shall not act as surety for the faithful performance of duties of individuals or corporations, even though it may be authorized to do so under the provisions of its charter or the laws of the Commonwealth of Pennsylvania.
- "9. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$4,161.89 as shown in the report of examination of such bank as of December 26, 1935, made by an examiner for the Federal Reserve Bank of Cleveland."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Warren Bank and Trust Company', Warren, Pennsylvania, 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 Secretary of Banking for the Commonwealth of Pennsylvania for his information.

"The report of examination of the bank as of December 26, 1935, indicates that there is no designated official as trust officer and that the executive committee acts as a trust committee but that no separate minutes of trust committee meetings are kept; your examiner also criticizes the method of vault control. It is assumed that you will satisfy yourself that the proper corrections will be made in order to bring the operations of the trust department into conformity with approved procedure.

"While the papers submitted with the bank's application included a copy of the certificate of incorporation issued by the Pennsylvania Department of State, a copy of the certificate of authorization required to be issued by that department under the provisions of section 310 of the Pennsylvania Banking Code was not inclosed. It will be appreciated, therefore, if you will forward to the Board for its records a copy of that certificate, together with one copy each of the so-called Liquidating Trust Certificates which were issued

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"to the depositors, creditors and stockholders of the predecessor bank, the Warren Savings Bank and Trust Company."

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

"The Board will interpose no objection to the absorption of the State Bank of Plymouth and Plymouth Exchange Bank, both of Plymouth, Wisconsin, by the 'Citizens State Bank of Sheboygan, Wisconsin', provided proceedings, contracts and agreements in connection therewith are, in the opinion of your counsel, legally effective. Please furnish the Board copies of any contracts or agreements pertaining to the transaction.

"In accordance with the recommendation of your office, the Board approves the establishment and operation by the Citizens State Bank of Sheboygan, Wisconsin, of a branch at Plymouth, Wisconsin, upon the completion of the absorption of the two existing banks in Plymouth, provided the establishment of such branch is approved by the appropriate State authorities."

Approved unanimously.

Letter to "The Central National Bank of Green Castle", Greencastle, Indiana, reading as follows:

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

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

Approved unanimously.

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

"Since it appears that there has been some misunderstanding as to requirements of law and provisions of section 5 of Regulation O, it is suggested that you advise by circular letter all member banks in your district of the substance of Board's ruling with regard to reports by executive officers of member banks of their indebtedness to other banks as contained in Board's telegram of February 6, 1936 (X-9483)."

Approved unanimously.

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

"This refers to your letter of January 23, 1936, with inclosures, presenting an inquiry from the Bank of Russellville, Russellville, Arkansas, a member bank, as to whether it would be contrary to the provisions of subsections (d) or (g) of section 22 of the Federal Reserve Act for such bank to make a loan to the National Compress & Warehouse Company, a Delaware corporation, whose president, general manager, and largest stockholder is also chairman of the board of directors of the bank.

"Subsection (d) of section 22 has to do with the purchase of securities or other property from a director of a member bank or a firm of which any such director is a member. It does not appear, therefore, that a loan to a corporation in which a director of a member bank is interested as a stockholder or officer would come within the provisions of such subsection, but it would be desirable, as indicated by your counsel, for the member bank to bear in mind the provisions of subsection (d) in connection with the proposed transaction in order to avoid any possible violation of that subsection.

"While subsection (g) of section 22 prohibits loans to a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in the partnership, that subsection does not by its terms prohibit a loan by a member bank to a corporation even though an executive officer of the member bank is substantially interested in the corporation. A corporation is an entity separate and distinct from the stockholders, whereas in the case of a partnership the partners are individually



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"liable for the debts of the partnership. It is apparently on the basis of this distinction that Congress has included partnerships of the kind described within the prohibitions of subsection (g) of section 22 but has made no reference therein to corporations. Of course, there may be circumstances in a particular case where a loan by a member bank to a corporation in which an executive officer of the member bank is substantially interested would be an attempted evasion of the provisions of the law and, therefore, in contravention of such provisions. However, while it is not definitely stated, it is assumed that the loan will be made to the National Compress & Warehouse Company in good faith and that the proceeds thereof will be used by the corporation for its corporate purposes. On such a basis, it is the Board's view that the loan in question would not be in contravention of section 22(g) of the Federal Reserve Act."

Approved unanimously.

Letter to Mr. David M. McPherson, Treasurer, Munlock Engineering Company, Washington, D. C., reading as follows:

"Following receipt of your letter of February 3 to Mr. Szymczak we requested information from the Federal Reserve Bank of Richmond regarding the application of your company for an industrial loan. From an examination of the file, and particularly your letter of February 3 to Mr. Szymczak, it appears that the requirements of your company are not for working capital but for permanent capital. This is indicated especially by the fact that for funds with which to operate you are depending primarily upon the sale of your securities and look to the further sale of securities for funds with which to repay the advances you are applying for.

"However, as you are aware, the law authorizes the Federal Reserve banks to make loans under the terms of Section 13b of the Federal Reserve Act for working capital purposes only. It is clearly the intention of the Act to give assistance to established businesses which for some special reason are having difficulty in providing themselves with current funds as distinguished from permanent or fixed capital. A loan for the purpose of furnishing permanent capital is therefore ineligible. In addition to the fact that your requirements are for permanent capital, it appears from Mr. Gary's letter to you of November 23, 1935, that the condition of your company financially, as reflected in your statement, is not such as to indicate that an advance could be made to your company on a

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"sound basis as the law specifies.

"The Federal Reserve banks have, of course, final authority to pass upon applications submitted to them, without reference to Washington. The Board, however, is glad to give consideration to any complaint from an applicant. In this case it appears that the Federal Reserve bank has given careful and conscientious consideration to the application and the Board does not feel that it can take exception to the grounds upon which the application was disapproved. It is regretted that favorable action on your application was not possible."

Approved unanimously.

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

"Reference is made to your letter of January 28, 1936, in which you ask the opinion of the Board regarding the question whether Mr. John W. Acher may lawfully serve as a director of The Farmers National Bank in Chinook and as a director and officer of The First State Bank of Chinook, both of Chinook, Montana, under the Clayton Act permit which was issued to him authorizing him to serve the national bank and First State Bank of Zurich, Zurich, Montana. You state that on August 3, 1935 the First State Bank of Zurich changed its name and its location so that it is now The First State Bank of Chinook. In view of the fact that the two banks which Mr. Acher is serving are now located in the same town, the relationships would now be prohibited unless his permit remained in effect after the change in name and location of the State bank.

"You inclose a copy of an opinion of counsel for your bank regarding the matter which points out that if on August 23, 1935, the date of the enactment of the Banking Act of 1935, Mr. Acher's permit authorized him to serve the two banks in Chinook which he is now serving, he may lawfully continue to serve until February 1, 1939, under the provisions of section 8 of the Clayton Act and section 2(c) of the Board's Regulation L, because, if the permit was then effective, he was then 'lawfully serving' both banks within the meaning of those provisions.

"As suggested by your counsel, if the First State Bank of Zurich became The First State Bank of Chinook merely as a result of a change in name and location and if in point of law it otherwise remained the same corporation and gave up none of its rights, privileges or franchises, the permit continued to be effective.

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"Of course, prior to the enactment of the Banking Act of 1935, when the Board was authorized to issue and revoke permits, it would, in a case of this kind, have reviewed the outstanding permit in order to determine whether or not the change in circumstances made it advisable to revoke the permit; but the permit would have continued in effect until revoked.

"In the circumstances, it will be appreciated if you will ask counsel for your bank to determine whether or not the First State Bank of Zurich became The First State Bank of Chinook merely by a change of name and location, or whether the present bank is a different corporation from that covered by the Board's permit; and it will be appreciated if you will advise the Board of the conclusion reached."

Approved unanimously.

Thereupon the meeting adjourned.

Olson Morice  
Secretary.

Approved:

W. C. ...  
Chairman.