

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 7, 1936, at 10:30 a. m.

PRESENT: Mr. Broderick, Chairman pro tem
Mr. McKee
Mr. Ransom

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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

Telegram to Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated April 6, 1936, from Mr. Morrill stating that Mr. Edward A. Sheafe, Jr., a stenographer in the Division of Examinations, was on March 6, 1936, temporarily assigned to assist Mr. Kramer, Superintendent of Construction of the Board's new building, at the field office recently erected at the site of building operations; that Mr. Kramer had advised that Mr. Sheafe was doing satisfactory work; that it seemed desirable to transfer him on the payroll from the Division of Examinations to the Building Account; and that Mr. Paulger, Chief of the Division of Examinations, was entirely agreeable to the transfer, effective as of April 16, 1936. The memorandum recommended, therefore, that

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the Board approve the transfer of Mr. Sheafe from the position of stenographer in the Division of Examinations to that of clerk in the office of the Superintendent of Construction, with no change in his present salary, effective April 16, 1936.

Approved unanimously.

Letter to the board of directors of the "State Savings Bank of Fenton", Fenton, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 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 Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$576.87 as shown in the report of examination of such bank as of February 10, 1936, made by an examiner for the Federal Reserve Bank of Chicago.
- "6. Such bank shall establish and thereafter shall maintain during the life of the depositors' agreement a 'Trustees Profit Account' which shall be separate and apart from the undivided profits account of the bank and which shall clearly reflect at all times the net amount of earnings due to the trustees for the waiving depositors, and such 'Trustees Profit Account' shall not be included with the undivided profits account of the bank in any of its reports of condition or published statements."

Approved unanimously, together with a letter to Mr. Young, Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

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"The Board of Governors of the Federal Reserve System approves the application of the 'State Savings Bank of Fenton', Fenton, 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 February 10, 1936, indicates that the bank is carrying balances in excess of 10 per cent of its capital with the Commonwealth Commercial State Bank of Detroit, Michigan, and the Merchants & Mechanics Bank of Flint, Michigan, both of which are nonmember banks. In this connection it is requested that you call the specific attention of the bank to the provisions of section 19(c) of the Federal Reserve Act.

"It will be noted that special condition of membership numbered 3 as recommended by the Reserve Bank Committee regarding the transfer of net earnings to surplus account after the termination of the depositors' agreement has not been prescribed. As indicated in the revision of Regulation H and the standard conditions of membership, it is the desire of the Board to limit and simplify the conditions of membership as much as possible. As you know, in at least one other case presenting similar circumstances (the Peoples State Bank of Holland, Holland, Michigan) a bank has been admitted to the System without such a condition of membership, and it would seem that such conservation of earnings as may be considered necessary in the circumstances may be obtained by appropriate supervisory action under standard conditions of membership numbered 1 and 2."

Letter to the board of directors of the "Coopersville State Bank", Coopersville, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 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 Chicago:

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- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Such bank shall establish and thereafter shall maintain during the life of the depositors' agreement a 'Trustees Profit Account' which shall be separate and apart from the undivided profits account of the bank and which shall clearly reflect at all times the net amount of earnings due to the trustees for the waiving depositors and such 'Trustees Profit Account' shall not be included with the undivided profits account of the bank in any of its reports of condition or published statements.
- "6. Prior to admission to membership such bank shall increase the aggregate of its capital stock and surplus to not less than \$50,000."

Approved unanimously, together with a letter to Mr. Young, Assistant 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 'Coopersville State Bank', Coopersville, 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.

"It will be noted that, as in the case of the State Savings Bank of Fenton, Fenton, Michigan, the special condition of membership as recommended by the Reserve Bank Committee regarding the transfer of net earnings to surplus account after the termination of the depositors' agreement has not been prescribed. As indicated in the revision of Regulation H and the standard conditions of membership, it is the desire of the Board to limit and simplify the conditions of membership as much as possible, and it would seem that such conservation of earnings as may be considered necessary in the circumstances may be obtained by appropriate supervisory action under standard conditions of membership numbered 1 and 2."

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

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"Reference is made to the report of examination of the 'Farmers Loan and Trust Company', Tipton, Indiana, as of January 25, 1936, and to the supplemental information submitted therewith, particularly the memorandum transmitted with your letter of March 21, 1936.

"It has been noted from the memorandum inclosed with your letter that the Department of Financial Institutions of Indiana and your office have demanded that the directors return to the bank within 30 days from March 19, 1936, the date of the conference held by the supervising authorities with the management of the bank, the sum of \$23,694.99 in cash for the purpose of eliminating certain loans and mortgages which were readmitted to the assets of the bank on January 10, 1936, to permit repayment by the bank to that extent of a directors' contribution made to the bank in connection with the rehabilitation of its capital structure in 1934.

"Following the expiration of the period of 30 days, it is requested that you advise the Board as to the action taken by the directors regarding the demands made by the supervisory authorities and that you submit to the Board a recommendation, in view of all of the circumstances, as to what action it is felt should be taken with respect to the bank, particularly as regards the strengthening of its management."

Approved unanimously.

In connection with the above matter, a memorandum prepared by the Division of Examinations with regard to the Farmers Loan and Trust Company, Tipton, Indiana, recommended that the Division be authorized to confer informally with the Examining Division of the Federal Deposit Insurance Corporation with respect to the situation disclosed by the report of examination of the bank as of January 25, 1936.

Approved unanimously.

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

"This refers to your letter of February 21, 1936, and its inclosures, relating to the status of 'The Norfolk Corporation of Braintree', Braintree, Massachusetts, 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.

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"Inclosed is a letter to The Norfolk Corporation of Braintree advising it concerning the action taken by the Board in this matter. Please forward the letter to that corporation. A copy of the letter is inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination with respect to The Norfolk Corporation of Braintree 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 Norfolk Corporation of Braintree", Braintree, Massachusetts, reading as follows:

"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns or controls of The Braintree National Bank, Braintree, Massachusetts; to the general voting permit issued to your corporation on April 13, 1934; and to your corporation's request that the Board determine that it 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.

"The Board understands that your corporation was organized as a part of a plan to rehabilitate The Braintree National Bank; that it performs no functions except in that connection; that it owns or controls 501 of the 1,000 outstanding shares of common stock and none of the preferred stock of The Braintree National Bank; and that it does not hold stock of, or manage or control, any other bank. In view of such facts, the Board has determined that your corporation 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. Under such determination your corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. The Board reserves the right, however, to make a further determination of this matter at any time on the basis of the then existing facts.

"In view of the foregoing determination by the Board, the general voting permit heretofore issued to your corporation is void and of no effect. If your corporation is later deter-

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"mined by the Board to be a holding company affiliate subject to the provisions of law relating to voting permits, it will be necessary for your corporation to obtain a new voting permit before the stock which it then owns or controls of any subsidiary member bank may lawfully be voted.

"The Board understands that The Braintree National Bank now has 1,250 shares of preferred stock outstanding and that your corporation does not own or control, directly or indirectly, either a majority of the shares of capital stock of such bank or more than 50 per centum of the number of shares voted for the election of directors of the bank at the preceding election. In the absence of other facts to the contrary, it does not appear that your corporation now comes within the general definition of the term 'holding company affiliate' to which the provision relating to determinations by the Board is an exception. If such is the case, your corporation is not now a holding company affiliate of The Braintree National Bank for any purpose and the foregoing determination by the Board was not essential at this time. However, it was deemed appropriate to make the determination since your corporation was a holding company affiliate when the general voting permit was issued and may again come within the general definition of that term without any action by it (e. g., through the retirement of the preferred stock of the bank)."

Telegram to Mr. Preston, First Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring your March 31 letter, Board interposes no objection to payment of six months' salary either in a lump sum or in six monthly installments to Mr. William McLean on his separation from service."

Approved unanimously.

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

"Receipt is acknowledged of your letter of March 26, 1936, and its inclosure, regarding certain outside affiliations of Marcus Walker, Managing Director of the New Orleans Branch of your bank.

"The Board has carefully reviewed the information contained in your letter and Mr. Walker's letter of March 24

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"transmitted therewith, and is not disposed to offer any objection to Mr. Walker's affiliations with the John Dibert Estate and the Eye, Ear, Nose and Throat Hospital. It feels, however, that his connection as honorary vice president of Dibert, Bancroft & Ross Co., Ltd., which is engaged in the manufacture of sugar machinery and steel castings, is a business enterprise clearly falling within the purview of the Board's letters of May 7, 1924 (X-4048), and April 29, 1933 (X-7425), which contain the following statement:

'* * * the * * * Board believes it will be as obvious to the directors of the Federal reserve banks as it is to itself that the good conduct and repute of the Federal Reserve System require that the officers of the reserve banks shall give their entire time and attention to the affairs of the banks and not be identified with any outside business interests.'

Moreover, the Board has in similar instances in the past insisted that officers of Federal reserve banks terminate outside affiliations of this character.

"In the circumstances, it will be appreciated if you will bring this matter to the attention of the board of directors of your bank, together with the Board's views as stated above, with the suggestion that it request Mr. Walker to terminate his affiliation with Dibert, Bancroft & Ross Co., Ltd. Please advise the Board as to the action taken in the premises."

Approved unanimously.

Letter to The Secretary of the Treasury, reading as follows:

"This refers to the letter to the Board from the Secretary of the Treasury dated December 13, 1935, and the reply of Chairman Eccles dated December 20, 1935, with regard to the replacement of Federal Reserve notes of the 1928 series by Federal Reserve notes of the series of 1934 at the expense of the United States. On April 2, 1936, Mr. Bernstein of the Treasury Department submitted informally to a representative of the Board copies of a draft of a proposed joint resolution of Congress authorizing the destruction of Federal Reserve notes of the series of 1928 and their replacement by Federal Reserve notes of the series of 1934, or a later series, at the expense of the United States.

"We have reviewed the draft of the proposed resolution and wish to offer the following suggestions with regard thereto:

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"In the third 'Whereas' clause it is suggested that the words 'for the foregoing reasons' be eliminated and that there be substituted in lieu thereof the words 'upon the suggestion of the Secretary of the Treasury'. This change is suggested because it is felt that a statement of the fact that the issuance of Federal Reserve notes of the series of 1928 was discontinued at the instance of the Treasury Department will be helpful in obtaining a favorable consideration by Congress of the proposed resolution.

"It is also suggested that in the resolution itself the words 'shall be replaced with Federal Reserve notes, of like denomination, of the series of 1934' be changed to read 'shall be replaced with an equal number of Federal Reserve notes of the series of 1934'. This change would permit of more flexibility in the replacement of various denominations of notes of the 1928 series with notes of the 1934 series and at the same time would cause no increase in the amount of the expense to the Treasury Department.

"It is hoped that the suggestions will receive your favorable consideration and that the matter can be presented to Congress for action at an early date."

Approved unanimously.

Thereupon the meeting adjourned.

Walter Merrill
Secretary.

Approved:

John Broderick
Chairman pro tem.