

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 6, 1936, at 11:45 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General
Counsel

There was presented a memorandum dated November 5, 1936, from Mr. Ransom referring to the action taken at the meeting of the Board on November 2, 1936, with respect to the hearing on November 10 of Mr. H. S. Johnson, President of the Point Pleasant National Bank, Point Pleasant, West Virginia, and stating that it had been ascertained that the Comptroller of the Currency would not return to Washington for several days and that, after discussing the matter with Chairman Eccles, who had planned to be absent from Washington today, he (Mr. Ransom) desired to recommend that the hearing be postponed until November 24 in order that the question of the participation by the Comptroller in the hearing might be thoroughly discussed with him and, if possible, a satisfactory conclusion reached. The memorandum had been circulated among the members of the Board and this meeting had been called to consider what, if any,

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action should be taken by the Board in the premises.

Mr. Ransom stated that it now appeared that the Comptroller would not be in Washington before Monday and that during his discussion of the matter with Chairman Eccles yesterday the latter had been of the opinion that as it was important that the question of procedure in cases of this kind be settled, a postponement of the hearing until November 24 was desirable, this date being suggested in order to afford an opportunity for a conference with the Comptroller of the Currency and consideration by the Board of his views on the question of his participation in the hearing, and because of numerous other matters requiring the Board's attention prior to that date. There followed a discussion of the questions (1) whether the hearing should be postponed and (2) the procedure to be followed at the hearing in the event it was not postponed.

In connection with the first question, Mr. McKee stated that the Board might be subject to criticism for a delay in the hearing in the event that the national bank should become insolvent and the depositors of the bank suffered any loss and that, therefore, he was of the opinion that the hearing should not be further postponed. The suggestion was offered that the hearing on November 10 might be regarded as a preliminary hearing for the purpose of affording Mr. Johnson an opportunity to admit or deny the charges following which the proceedings could be adjourned to a later date if necessary in order to provide an adequate opportunity for the presentation of evidence.

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Mr. Ransom stated that he saw no objection to such a procedure provided it was made clear that the Board would assume no responsibility whatsoever for proving the charges made by the Comptroller of the Currency.

At the conclusion of the discussion, Mr. Ransom withdrew the recommendation contained in his memorandum of November 5, and it was agreed that the hearing should not be deferred.

Mr. McKee moved that Counsel be requested to prepare, in consultation with the Secretary, for the consideration of the Board prior to November 10, 1936, an outline of the procedure to be followed at the hearing on that date, it being understood that the outline would provide that the Chairman shall first read a statement to be prepared by Counsel in which reference will be made to the provisions of law authorizing the holding of the hearing; that, following a reading of the opening statement, the Chairman will direct the Secretary to read the order sent to Mr. Johnson under date of September 21, 1936, and, paragraph by paragraph, the certificate filed with the Board by the Comptroller of the Currency on September 3, 1936; that the Chairman shall ask Mr. Johnson following the reading of each paragraph of the certificate whether he desires to admit or deny the charge or charges set forth in the paragraph; and that following the answers by Mr. Johnson to all of the charges he will be requested to retire so that the Board may determine what action should then be taken. In this connection, it was to be understood that Counsel would prepare a letter for the signature of the Secretary to the Acting Comptroller of the Currency advising that the Board had decided not to postpone the hearing further and requesting that he have the evidence and witnesses to substantiate the charges contained in the certificate filed with the Board by the Comptroller of the Currency available at the time of the hearing, i.e., at 11:00 a. m. on Tuesday, November 10, 1936.

Carried unanimously.

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At this point Messrs. Thurston, Wyatt and Dreibelbis withdrew from the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 5, 1936, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, and Mr. Martin, Chairman of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York bank on November 5, and by the Atlanta bank today, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to Mr. Dillistin, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"In your letter of October 23, 1936, you state that the appointment of Mr. Alfred J. Hudson to act for the Federal Reserve Agent in issuing and retiring Federal Reserve notes will be continued until it has been determined that his assistance in such capacity is no longer needed.

"It is understood that, prior to the transfer of the nonstatutory duties of the Federal Reserve Agent to the Federal Reserve bank, Mr. Hudson acted as Chief of the Note Issues Department, and it appears from the copy of the survey of the organization and expenses of your bank (page 8) forwarded to the Board with Mr. Harrison's letter of July 30, 1936, that, as a result of such transfer, the Note Issues Department was abolished and that the major duties thereof were assigned to the Chief of the

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"Records Division of the Bank Examinations Department (Mr. Jere V. D. Stryker)".

"The Board, as you know, has approved the appointment of Mr. Stryker as Assistant Federal Reserve Agent at your bank, with the understanding that his primary duties will be in connection with the issuance and retirement of Federal Reserve notes and with the custody of the collateral therefor. Since the issuance and retirement of Federal Reserve notes and the holding of the collateral pledged therefor are functions which the Federal Reserve Act prescribed shall be performed by the Federal Reserve Agent and, therefore, may not be transferred to the Federal Reserve bank, it is assumed that any duties which the Note Issues Department may have heretofore performed in this connection and which may have since been assigned to Mr. Stryker were assigned to him in his capacity as Assistant Federal Reserve Agent. It is assumed also that, so long as Mr. Hudson continues to act for the Federal Reserve Agent in connection with the issuance and retirement of Federal Reserve notes, he will remain on the payroll of the Agent's Department and be solely responsible to the Federal Reserve Agent or, during a vacancy in the office of the Agent to the Board of Governors, for the proper performance of his duties. However, it will be appreciated if you will advise the Board definitely regarding these points, in order that its records may be clear."

Approved unanimously.

Letter to the board of directors of the "Orange County Trust Company", Middletown, New York, 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 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 New York:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership such bank, if it has

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"not already done so, shall charge off or otherwise eliminate estimated losses of \$117,111, as shown in the report of examination of such bank as of August 10, 1936, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, together with a letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Orange County Trust Company', Middletown, New York, 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 Superintendent of Banks for the State of New York for his information.

"It has been noted from the report of examination, made as of August 10, 1936, that the bank was paying interest at the rate of $1\frac{1}{2}$ per cent on \$100,000 certificates of deposit, payable upon one day notice, and that savings deposits included accounts of corporations. It is assumed that you will acquaint the bank with the statutory provisions and the provisions of Regulation Q pertaining to payment of interest on deposits.

"The report of examination shows that, while its by-laws and 'charter' require that the number of its directors shall be ten, it actually had a directorate of only nine members. The report shows also that the laws of the State of New York provide that the bank shall have from five to fifteen directors. A copy of the bank's Certificate of Incorporation was forwarded with its application, but neither that document nor any of the other papers submitted contains any provisions with respect to the number of members of its directorate. In this connection, however, the copy of the certificate executed on July 29, 1936, by the New York Deputy Superintendent of Banks refers to 'the articles of incorporation' of the bank, and it is assumed that this is the document the examiner had in mind in making his statement regarding the requirements of the bank's 'charter.' It will be appreciated, therefore, if you will obtain and forward to the Board a copy of any such articles of incorporation."

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Letter to the board of directors of the "State Bank of Mayville", Mayville, Wisconsin, 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 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:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. As soon as practicable, such bank shall dispose of the two trusts which it is now administering, and obtain an appropriate release from all fiduciary responsibility in connection with such trusts; and, except for the necessary procedure incident to the two trusts now being administered, such bank shall discontinue the exercise of trust powers and shall not reengage in the exercise of trust powers without first obtaining permission of the Board of Governors of the Federal Reserve System."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'State Bank of Mayville', Mayville, Wisconsin, 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 Wisconsin for his information.

"Condition of membership numbered 5 is not prescribed by the Board because of any particular circumstances which indicated that the bank was not competent properly to operate a trust department. According to the information submitted, the bank is administering only two trust accounts, with combined resources of only \$4,500, and is desirous of discontinuing trust activities, having requested revocation

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"of its trust powers and a discharge from the two trusts. In view of such circumstances, the Board felt that, except for the necessary procedure incident to the two trusts now being administered, the bank should be admitted to membership on the same basis as a bank which was not exercising trust powers, and it is requested that you make clear to the bank the reasons for prescribing condition numbered 5.

"According to the information submitted, the Mayville Corporation has been indebted to the bank in the amount of \$5,000 since September 1934. Upon admission of the bank to membership, the Corporation will become an affiliate and the examiner for the Reserve Bank indicates that the management is somewhat concerned about the necessity of publishing reports of the affiliate as it does not wish to call attention to the fact that in 1933 the stockholders had to come to the assistance of the bank. The management has indicated that the \$5,000 loan can be disposed of prior to admission to membership, but even in such event, under existing requirements, the bank would be required to publish a report of the affiliate at each call within six months from the date of the retirement of the loan.

"It is understood that the corporation was organized in 1933 by the stockholders of the bank for the sole purpose of giving financial assistance to the bank; that its only activity has been the purchase of certain assets from the bank and the liquidation of such assets, upon completion of which the corporation will be dissolved; and that there appear to have been no abusive practices between the bank and the corporation. In view of the circumstances, therefore, if the indebtedness of the corporation to the bank be retired prior to admission of the bank to membership, the Board waives the requirement for submission and publication of any reports of the Mayville Corporation which otherwise would be required during the six months following the date of payment of such loan by reason of transactions occurring prior to the bank's admission to membership.

"From the examiner's comments on page 19-B of the report of examination for membership, it appears that in the past the bank has sold bonds and with the proceeds realized thereby purchased other bonds which were set up on the books of the bank at the same figure at which the bonds sold were carried, and that in such transactions where the purchase price was less than the sale price the net difference was credited to earnings. As you were advised in the Board's letter of May 7, 1934 (X-7889), transactions

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"by member banks which result in bonds being set up on the books of the bank at a figure in excess of their market value might involve criminal violations of the Federal statutes and would have to be reported to the Department of Justice. It is suggested, therefore, that you call this matter to the particular attention of the management with the request that in the future bonds purchased be not set up on the bank's books at a figure in excess of the market value.

"The copies of the bank's certificates of incorporation and of the amendments to its charter forwarded to the Board with the application refer to the bank's 'Articles of Association' and 'Articles of Incorporation'. While it is not entirely clear, it is understood from the certificate which your counsel has executed in this case (Form 83E) and the advice contained in the letter of September 5, 1936, from the Wisconsin Commissioner of Banks, that copies of the documents referred to are not available, but it will be appreciated if you will furnish the Board with advice on this point, together with such advice as your counsel may be able to furnish regarding the question whether such references are to the same document.

"It is understood also that the copies of the certificates of incorporation and amendments mentioned above, including the copy of the authorization to exercise trust powers, were obtained by you directly from the Wisconsin Banking Department. In view of the circumstances involved in this case, a compliance with the requirements of the Board's Form 83A (Exhibit V) will be considered to have been accomplished if you will obtain and forward to the Board a statement from the Wisconsin Banking Department to the effect that the copies of the amendments are complete copies of all the amendments which have been made to the bank's charter."

Letter to Mr. Evans, Vice President of the Federal Reserve
Bank of Dallas, reading as follows:

"Receipt is acknowledged of your letter of October 6, 1936, in reply to Mr. Paulger's letter of October 1, 1936, regarding the statement of the examiner in the confidential section of the report of examination of The First State Bank, Dodsonville, Texas, as of April 7, 1936, that President Nisbett did not include an indebtedness to the Farmers and Mechanics Trust Company, Childress, Texas, in his report of liabilities to other banks filed

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"with the board of directors in accordance with the provisions of section 22(g) of the Federal Reserve Act.

"You report that the Farmers and Mechanics Trust Company, Childress, Texas, is neither a 'bank, banking association nor trust company' within the legal meaning of those terms, even though the words 'trust company' appear in its title, and that it is a finance and mortgage company without any banking privileges whatever. On the basis of the additional information you have furnished, it appears that the indebtedness of the President of The First State Bank to the Farmers and Mechanics Trust Company does not come within the provisions of section 22(g) or the Board's Regulation O, and, accordingly, no action need be taken with regard to a report of such indebtedness to The First State Bank by its President."

Approved unanimously.

Letter to Mr. Knoke, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of October 29, 1936, inclosing copies of the additional correspondence relative to earmarked silver held in the vaults of the Federal Reserve Bank of San Francisco for the account of the Banco de Mexico, Mexico.

"In this connection, it is assumed that the silver now in the vaults of the Federal Reserve Bank of San Francisco earmarked for the account of the Banco de Mexico is in connection with the agreement of your bank with the Banco de Mexico approved by the Board in its letter to Mr. Allan Sproul of July 30, 1935, and that while the correspondence indicates that the Federal Reserve Bank of San Francisco is holding such silver for the account of the Banco de Mexico, it is in fact holding the same as your agent for the account of the Banco de Mexico in accordance with your agreement with the Banco de Mexico. However, in order that the Board's files may be entirely clear in this respect, it will appreciate advice from you in the premises."

Approved unanimously.

Letter to Mr. Garrett, Manager, Bank Relations Department of the Federal Reserve Bank of Richmond, reading as follows:

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"Reference is made to your letter of October 22, 1936, transmitting detailed reports of the activities of the Bank and Public Relations Department of the Federal Reserve Bank of Richmond for the month of September, 1936. It is assumed that the information furnished the Board is in the form which your bank finds most valuable, particularly for reference purposes. While such detailed information is helpful in reviewing conditions affecting individual cases, it is not necessary for the Board's purposes. In its letter of August 25, 1936 (X-9680), the Board assumed that, aside from any detailed individual report on each bank visited, the officers and other representatives of your bank would customarily make narrative resumes of the information as a whole gathered during their trips. It was the thought of the Board that it would find copies of such resumes helpful to it.

"As stated in the full paragraph in the middle of the second page of its letter of August 25, it was thought that these reports would cover criticisms and comments, favorable or unfavorable, with respect to the Federal Reserve banks or the Board of Governors; the attitude of member and nonmember banks toward membership and the System generally; reasons given by nonmember banks for not joining the System; any suggestions which would be of interest to the Board or which would tend to improve the System or its relations with the banks and the public; and suggestions or criticisms made by bankers or others during visits to the Federal Reserve banks. As also stated in the Board's letter, these reports need not follow any set form, but it is felt that the information will be helpful if presented so as to give the Board a general picture of conditions in the different districts and of the attitude of bankers toward the System.

"The Board will appreciate it if you can arrange in future to send it one such report covering each month's activities, instead of the individual reports on each bank, such as were inclosed in your letter of October 22."

Approved unanimously.

Letter to Mr. Morris L. Cooke, Administrator, Rural Electrification Administration, prepared for the signature of the Chairman, and reading as follows:

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"has given careful consideration to your letter of October 5, 1936, in which you state that the contracts covering loans by the Rural Electrification Administration require approval by the Administration of the banks used by the borrowers as depositaries for advances made by the Government and ask whether it would be appropriate for you to request from the Board confidential information regarding the financial responsibility of State member banks and national banks which have been suggested for your approval as depositaries.

"Inasmuch as national banks are under the supervision of the Comptroller of the Currency, any request for information pertaining to the financial condition of national banks should be addressed to his office. For your information, I might state that the Board's records do not include reports of examination or call reports of condition of national banks.

"The most significant information in the Board's records pertaining to the financial responsibility of a State member bank is that developed from the reports of examination. Such information, as you realize, is confidential; in fact, so confidential that, while the Board is given some general authority relating to the disclosure of such information, Congress has deemed it appropriate to confer specific statutory authority on the Board to make available reports of examination of State member banks to certain agencies, such as the State authorities having supervision of the banks examined, the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation. In the circumstances, I am sure you will appreciate the fact that the Board does not feel that it should make available to your office information obtained from the reports of examination or to express an opinion based upon such information. The Board will be glad at any time, however, to advise your office whether a particular State bank is a member of the System and as to any of the figures shown in the statement of condition of a State member bank submitted in response to a call issued by the Board. In addition, the Board's Division of Examinations will be glad to cooperate with an authorized representative of your organization informally by supplying him upon request any other information not of a confidential nature which may be available regarding any particular State member bank."

Approved unanimously.

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Letter to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"Receipt is acknowledged of your letter of October 21 in which you refer to the fact that the Federal Reserve Bank of Philadelphia formerly maintained a library service for its member banks such as the Federal Reserve Bank of Minneapolis has inaugurated, as indicated in the Board's letter, X-9718; and that this service was discontinued by you because of the Board's request that your budget be reduced.

"The reduction of the Philadelphia budget covering the statistical and analytical function which was effected about eleven years ago was, according to the Board's records, due primarily to a change in the scope and character of the statistical and analytical work as conducted prior thereto. This work had included analyses of business and industrial conditions in the Third district and the publication of reports embodying such information. It does not appear that the library service was specifically referred to in the correspondence between you and the Board at that time.

"While this service was not inaugurated by the Federal Reserve Bank of Minneapolis until October 1 of this year and the Board therefore has no figures with respect to its cost, it is assumed that the rendering of the service will not materially affect the cost of operating the statistical department as a whole.

"The Board appreciates your bringing to its attention the experience you have had with library service, and your forwarding a copy of the extremely comprehensive catalog which you maintained for the use of member banks."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

Forrest J. Anderson
Vice Chairman.