

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 8, 1937, at 2:30 p.m.

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

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

Mr. Morrill stated that in accordance with the action of the Board on January 6, 1937, copies of the order issued by the Board removing Mr. H. S. Johnson from office as an officer and director of The Point Pleasant National Bank, Point Pleasant, West Virginia, had been served personally upon Mr. Johnson and The Point Pleasant National Bank and affidavits of the service placed in the files of the Board.

Consideration was 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 January 7, 1937, were approved unanimously.

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, stating that the Board approves the establishment without change by the New York bank on January 7, 1937, and by the Cleveland and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to Mr. Sargent's letter of December 8, 1936, in which it is stated that at a regular meeting of the executive committee of your bank held on that date it was voted to reestablish the existing rates of discount. The letter also states that inasmuch as the executive committee has no power to change rates your bank intends hereafter to notify the Board of the committee's actions in this regard by air mail, but will continue the existing practice of wiring the Board advice of the establishment of rates by your board of directors.

"In this connection it is requested that advice of action on rates of discount by the executive committee as well as by the board of directors be transmitted to the Board by telegraph. This request is made in order that the Board may be in a position to take action on discount rates, and that advice of such Board action may be communicated by telegraph to your bank, as promptly as possible in all cases.

"In your letter of November 13, 1936, you referred to the Board's telegram of February 24, 1936, to Chairman Walsh at Dallas (X-9501-a) in which the Board stated that it would offer no objection for the present to inclusion of provisions in the by-laws authorizing the establishment of discount rates, subject to review and determination of the Board of Governors, by the executive committee composed as suggested in the Board's letter of February 14, 1936 (X-9493); and you stated that a change in the by-laws of your bank was proposed with respect to the establishment of rates of discount. With your letter of December 10, 1936, you transmitted a copy of the by-laws of your bank as amended and adopted on November 30, 1936.

"While it is not definitely so stated, it is understood that it is proposed hereafter that the board of directors of your bank will meet twice a month and that when the length of the period between such meetings exceeds fourteen days you expect to rely upon the action of your executive committee in establishing rates of discount in order to conform to the requirements of section 14 of the Federal Reserve Act on this subject. It is noted, however, that the by-laws which have been adopted authorize the executive committee to establish rates of discount provided that the rates so established shall be the same as those recommended at the next preceding meeting of the board of directors. Apparently the by-laws contemplate that the executive committee will have no discretion in this matter but will be compelled in every case in which action is taken merely to reaffirm rates which, in effect, have already been established at a preceding meeting of the board of directors.

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"The Board recognizes the practical difficulty which arises at many of the Federal Reserve banks of complying with the requirement of the law that discount rates be established every fourteen days, and, if the legislative situation permits, will recommend to Congress an amendment to bring the statute on this subject into accord with the practical situation. It is believed, however, that the provisions of section 14 of the Federal Reserve Act as they now exist are intended to require every fourteen days a new consideration of rates of discount, with action based upon such consideration, and that a mere ministerial reaffirmation or reestablishment of rates previously fixed, without any discretion to adjust the rates to conform to circumstances existing at the time the action is taken, does not meet the intention of the law. The Board wishes to invite your attention to the fact, therefore, that, if the above understanding of the procedure which is planned by your bank in this matter is correct, it would not seem to comply with the requirements of the statute on occasions when the executive committee acts upon discount rates between meetings of the board of directors.

"In this connection it appears that this situation arises as a result of the recent change in the schedule of meetings of the directors and it would, of course, be possible to obviate this difficulty by returning to the practice which has been followed in the recent past if this is found to be feasible."

Approved unanimously.

Telegram to Mr. W. G. Wysor, General Manager, Southern States Cooperative, Incorporated, Richmond, Virginia, reading as follows:

"Board of Governors has appointed you class 'C' director of Federal Reserve Bank of Richmond for three-year term ending December 31, 1939."

Approved unanimously.

Telegram to Mr. Charles F. Larrabee, Vice President, Pacific American Fisheries, Inc., Bellingham, Washington, reading as follows:

"Board of Governors has appointed you director of Seattle branch of the Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1937, on understanding that before entering upon duties as branch director you will sever connection as honorary vice president of American National Bank of Bellingham. Please wire acceptance collect."

Approved unanimously.

Letter to the board of directors of "The Ohio Bank and Savings Company", Findlay, Ohio, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following

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special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock of the Federal Reserve Bank of Cleveland:

- "4. Such bank shall make adequate provision for depreciation in its 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 \$1,392.74, as shown in the report of examination of such bank as of December 8, 1936, made by an examiner for the Federal Reserve Bank of Cleveland.
- "6. As soon as practicable, such bank shall dispose of any loans which may be secured in whole or in part by its own stock, or obtain the substitution of other adequate security for each such loan."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Ohio Bank and Savings Company', Findlay, Ohio, 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 Ohio, for his information.

"It has been noted from the report of examination as of December 8, 1936, that the bank had one loan which was in excess of the limits prescribed by the laws of the State of Ohio, but that it was contemplated that the loan would be reduced to an amount within such limits by December 31, 1936. It is assumed that you will satisfy yourself that this has been done.

"In order that the Board's records may be complete, it will be appreciated if you will forward a copy of the certificate issued by the State authorities to the bank to commence business, if such a certificate was required at the time of its organization in 1897, and, in the light of the Board's letter of December 26, 1934 (X-9060), a copy of the form of capital debentures which the bank has issued to the Reconstruction Finance Corporation, together with a copy of any approval which the State authorities may have given to the issuance of such capital debentures."

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the recommendation contained in Mr. Hill's

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"letter of December 21, 1936, the Board interposes no objection to the proposed absorption of the Prospect Park State Bank, Prospect Park, Pennsylvania, a nonmember insured bank, by the 'Interboro Bank and Trust Company', Prospect Park, Pennsylvania, a member bank, under the plan outlined by Mr. Hill, with the understanding that the transaction has the approval of the appropriate State authorities, that the assets to be acquired by the member bank will be verified and approved by an examiner for your bank, and that your counsel approves the form of the agreement between the two institutions and is satisfied that the transaction is legally effective and will not affect the membership status of the Interboro Bank and Trust Company. Please furnish the Board with copies of any agreements or contracts pertaining to the transaction.

"In view of the provisions of section 12-B (i) (4) of the Federal Reserve Act, it is assumed that, if the proposed absorption is consummated, the Prospect Park State Bank will furnish its depositors as well as the Federal Deposit Insurance Corporation, with appropriate notices to that effect."

Approved unanimously.

Telegrams to Mr. McCravey, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, stating that, subject to the conditions set forth in the telegrams, the Board of Governors of the Federal Reserve System authorizes the issuance of general voting permits, under the provisions of section 5144 of the Revised Statutes of the United States, to "Almours Securities, Inc.," and "Florida National Group, Inc.," both of Jacksonville, Florida, entitling such organizations to vote the stock which they own or control of the following banks:

- "The Florida National Bank of Jacksonville", Jacksonville, Florida,
- "The Florida National Bank and Trust Company at Miami", Miami, Florida,
- "The Florida National Bank at St. Petersburg", St. Petersburg, Florida,
- "The Florida National Bank at Bartow", Bartow, Florida,
- "The Florida National Bank at Lakeland", Lakeland, Florida,
- "The Ocala National Bank", Ocala, Florida,

at all meetings of shareholders of such banks. The conditions contained in the telegrams upon which the permits were authorized were as follows:

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- "1. Prior to the issuance of the general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying the Board's letter X-9385, except that paragraphs numbered 4 and 5 shall be omitted and remaining paragraphs appropriately re-numbered, and the word 'State' shall be omitted from paragraph numbered 2.
- "2. Prior to the issuance of the general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (F.R.B. Form P-3) executed by Almours Securities, Inc. of Virginia and Christopher Point Company, and Exhibit N (F.R.B. Form P-4) executed by applicant and consented to by Almours Securities, Inc. of Virginia and Christopher Point Company; or furnish assurances satisfactory to you that it will deliver such exhibits to you within 30 days after issuance of general voting permit authorized herein or furnish evidence in writing satisfactory to Counsel for Federal Reserve Bank of Atlanta that such exhibits are not required by the Board's Regulation P and the directions on the printed forms referred to.
- "3. Simultaneously with the issuance of the general voting permit authorized herein, there shall be issued to Florida National Group, Inc., (the name of Almours Securities, Inc. substituted here in the telegram granting a general voting permit to Florida National Group, Inc.) the general voting permit authorized in the Board's telegram to you bearing the same date as this telegram."

Approved unanimously.

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

"This refers to your letter of December 16, 1936, with regard to possible violations of section 22(a) of the Federal Reserve Act involving the Bank of Commerce and Trusts, Richmond, Virginia, Mr. M. E. Bristow, Commissioner of Insurance and Banking of Virginia, and Mr. George A. Bowles, Deputy Commissioner. The opinions of counsel for your bank inclosed with your letter have been noted.

"As you know, section 22(a) of the Federal Reserve Act was amended by the Banking Act of 1935 so as to make it clear that the section is applicable to State bank examiners who have authority to examine member banks. While it appears to be a matter of doubt as to whether there have been violations of the statute in the cases which are the subject of your letter, the Board, in accordance with its usual policy, feels that it should

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"not undertake to make a determination of the doubtful legal questions involved, but that such questions should have the consideration of the Department of Justice and of the United States Attorney, within whose jurisdiction these matters fall. Accordingly, it is requested that you report these cases to the local United States Attorney and forward three copies of your report to the Board for transmission to the Attorney General."

Approved unanimously.

Letter to Mr. J. W. Kellogg, President, Sealtext, Chicago, Illinois, reading as follows:

"Your letter of December 28, 1936, has been received.

"The margin requirements which have been prescribed by the Board of Governors of the Federal Reserve System are applicable to the extension and maintenance of credit for the purpose of purchasing or carrying securities and do not, directly, at least, affect the purchasing or carrying of commodities.

"The Board is, however, continuously informed of changes in commodity prices and regards such changes as one of the factors to be considered in the exercise of its several powers."

Approved unanimously.

Memorandum dated January 5, 1937, from Mr. Noell, Assistant Secretary, recommending, for the reasons stated in the memorandum, that a contract for furnishing all of the mimeograph paper which will be required for the Board's use during 1937 be executed with the Gauss Paper Company, Washington, D. C., on the basis of its bid of December 12, 1936.

Approved unanimously.

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

"Reference is made to your letter of December 23, 1936, with inclosure and previous correspondence relative to the service of Mr. K. E. Reed as a director of The First National Bank of South Charleston, South Charleston, while at the same time serving The Charleston National Bank, Charleston, both of West Virginia.

"It is noted from the letter dated December 14, 1936, ad-

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"dressed to you by the board of directors of The First National Bank of South Charleston that in its opinion Charleston and South Charleston are not contiguous nor adjacent within the meaning of the Board's definition of those terms as set forth in Regulation L; and that accordingly it is allowing Mr. Reed to serve as a director of The First National Bank of South Charleston subject to any instructions from you to the contrary. In the circumstances you request advice as to what further steps, if any, should be taken in the matter.

"The conclusion of the board of directors of The First National Bank of South Charleston that Charleston and South Charleston are not contiguous nor adjacent is based upon reasons cited in its letter to you which may be summarized as follows:

The boundaries of the two cities do not coincide at any point; the cities are not separated at any point by a watercourse only; they have separate city administrations; dissimilar types of industry and are industrially and economically independent of each other.

"On the other hand, it is noted that your examiners who are familiar with the situation advise that Charleston and South Charleston are 'adjacent' as that term is interpreted in the Board's Regulation L; and that Mr. W. R. Milford, Managing Director of the Baltimore Branch of the Federal Reserve Bank of Richmond, who was actively engaged in the banking business in Charleston for a number of years and is thoroughly familiar with the location of the two cities states that -

'.... While it is true that the two cities do not touch at any point, are not separated at any point by a watercourse only, have separate city administrations, still, to the ordinary person, it would be difficult to determine in passing from one city to the other any clear line of demarcation except the Kanawha River.'

"It is also noted that you are of the opinion that the two cities are 'adjacent'. This opinion seems to be further supported by Mr. Allen's statement in his letter of November 21, 1936, to the Board, a copy of which was forwarded to you with the Board's letter of November 27, 1936, to the effect that the two cities are contiguous.

"The question whether these cities are 'adjacent' is largely one of fact involving the application of the language of the statute and the Board's Regulation L to the facts in the particular case. Mr. Milford, your examiners and yourself are of the opinion that the two cities are 'adjacent' within the meaning of the Clayton Act, and after consideration of the facts the Board sees no reason to differ from this conclusion. Accordingly,

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"it is suggested that you advise the board of directors of The First National Bank of South Charleston, South Charleston, West Virginia, that it is the opinion of the Board that Charleston and South Charleston, West Virginia, are 'adjacent' within the meaning of section 8 of the Clayton Act and that, therefore, Mr. K. E. Reed may not lawfully serve as a director of The First National Bank of South Charleston, South Charleston, while at the same time serving The Charleston National Bank, Charleston; and request advice as to the steps taken by Mr. Reed to bring his relationships into conformity with the provisions of the statute."

Approved unanimously.

Thereupon the meeting adjourned.

Charles Morrell
Secretary.

Approved:

W. S. Lewis
Chairman.