

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, March 27, 1937, at 11:30 a. m.

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

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 the board of directors of "The Callaway Bank", Fulton, Missouri, 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 St. Louis:

- "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 not already done so, shall charge off or otherwise eliminate estimated losses of \$10,946.32, as shown in the report of examination of such bank as of February 8, 1937, made by an examiner for the Federal Reserve Bank of St. Louis."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Callaway Bank', Fulton, Missouri, for membership in the Federal Reserve System, sub-

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ject 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 Finance of the State of Missouri for his information.

"The report of examination of the bank as of February 8, 1937, indicates that the bank was carrying three loans in excess of 10% of its capital and surplus secured by stock and bond collateral. It is suggested that the management's particular attention be called to the provisions of section 11(m) of the Federal Reserve Act with respect to the limitations on loans by member banks secured by stock and bond collateral.

"From the transcript appearing on page 12 d and the examiner's comments on page 21 of the report, it appears that the bank has purchased bonds below par which were set up on the books of the bank at par, the difference being credited to undivided profits. It is understood from the report of examination that the bank's practice in this respect is contrary to the provisions of State law. As you were advised in the Board's letter of May 7, 1934 (X-7889), transactions 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 possible criminal violations of the Federal statutes which 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 the practice be changed.

"The papers submitted with the bank's application did not include a copy of the form of capital notes which the bank has sold to the R. F. C. In order that the Board's records may be complete, it will be appreciated if you will forward such a copy to the Board, in the light of its letter of December 26, 1934 (X-9060).

"It is noted that the report of examination of The Callaway Bank indicates that it has outstanding a loan of \$25,000 to A. G. Edwards & Sons, brokers, St. Louis, Missouri, collateralized by sundry listed stocks. As you know, section 8(a) of the Securities Exchange Act of 1934 forbids members of national security exchanges and certain brokers or dealers from borrowing, directly or indirectly, in the ordinary course of business as a broker or dealer on any registered security (other than an exempted security) from any nonmember bank unless the bank has filed a specified agreement with the Board. Accordingly, since The Callaway Bank has not filed such an agreement, there might ordinarily be some question as to whether the firm of A. G. Edwards & Sons has not violated this provision of the Securities Exchange Act. The report of examination indicates further, however, that the collateral for

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"this loan is held by the Mercantile Commerce Bank and Trust Company, St. Louis, Missouri. This makes it seem probable that A. G. Edwards & Sons originally borrowed from the Mercantile Commerce Bank and Trust Company, which would be permissible since the bank is a member bank, and that The Callaway Bank merely acquired the loan from the Mercantile Commerce Bank and Trust Company at some later time without A. G. Edwards & Sons ever borrowing, directly or indirectly, from The Callaway Bank. It is assumed that you have satisfied yourself that this is the situation and, therefore, the Board plans to take no further action with respect to this matter unless it should hear from you further in this connection."

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

"Receipt is acknowledged of your letter of March 23, 1937, with regard to the proposed retirement, by 'The Hanover National Bank of Wilkes-Barre', Wilkes-Barre, Pennsylvania, of \$1,250 of its outstanding preferred stock held by the Reconstruction Finance Corporation.

"It is understood that the Comptroller of the Currency has advised the bank that his office would interpose no objection to the retirement of the amount in question, provided that a reserve of like amount for payment of dividends in common stock is established, and provided further, that, because of the fact that the bank has been granted trust powers and there might be a question as to the sufficiency of the bank's capital, the Board of Governors likewise either approve or interpose no objection to the transaction. It is understood also that the liquidation of the bank's trust department is progressing as rapidly as possible and that the trust assets have been reduced to a comparatively nominal figure, amounting to only \$21,000 as of January 25, 1937 the date of the latest examination.

"In view of all of the circumstances, and in accordance with your recommendation, the Board interposes no objection to the proposed retirement of preferred stock, provided that a corresponding amount will be placed in a reserve for dividends payable in common stock in compliance with the requirements of the Comptroller of the Currency. Please advise the bank accordingly."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Frank J. Moran  
Vice Chairman.