

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, June 21, 1937, at 11:00 a. m.

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

Mr. Morrill, Secretary  
Mr. Bethea, 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 19, 1937, were approved unanimously.

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

"In accordance with the recommendation contained in your letter of June 11, the Board approves, effective July 1, the appointment as Alternate Assistant Federal Reserve Agent of Mrs. Genevieve M. Barnett, whose temporary appointment to this position expires July 1. The Board also approves the continuation of the payment of salary to Mrs. Barnett at the present rate of \$2,700 per annum.

"Mrs. Barnett should, of course, remain upon the payroll of the Federal Reserve Agent and be solely responsible to you for the proper performance of her duties. When not engaged in the performance of her duties as Alternate Assistant Federal Reserve Agent she may, with the approval of the Federal Reserve Agent and the President, perform such work for the bank as, in your opinion, is not inconsistent with her duties as Alternate Assistant Federal Reserve Agent."

Approved unanimously.

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

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"In accordance with the request contained in your letter of June 17, 1937, the Board approves the appointments of Howard D. Crosse and Randolph V. Daly as examiners for the Federal Reserve Bank of New York. Please advise of the effective dates. The Board approves also the designations as assistant examiners of the thirty-two employees of the main office and Buffalo Branch listed in your letter. The designations of these employees as assistant examiners are in order that they may be available to lend temporary assistance to your regular examiners, and have been approved with the understanding that none of the employees involved will be transferred permanently to examining work without the Board's approval."

Approved unanimously.

Letter to the board of directors of the "Oklahoma State Bank, Ada, Oklahoma", Ada, Oklahoma, 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 Kansas City:

- "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 shall reduce all loans which are in excess of the limits prescribed by the laws of the State of Oklahoma to amounts within such limits.
- "6. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate any known losses."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Oklahoma State Bank, Ada, Oklahoma', for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the

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"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 Bank Commissioner for the State of Oklahoma for his information.

"It has been noted that substantially all of the losses shown in the report of examination for membership have been charged off or otherwise eliminated, and since the remaining items so shown are only nominal in amount, a condition of membership requiring the elimination of such remaining losses has not been prescribed. However, in view of the time which has elapsed since the date of examination, a condition has been prescribed to require the elimination of any known losses.

"The examiner made a number of criticisms of the method of handling certain detailed operations of the bank, and it is assumed that these matters will be followed up and the necessary corrections effected."

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

"Re letter June 16, 1937, regarding application of 'First Security Bank of Idaho', Boise, Idaho, for permission to acquire the business of the Emmett branch of the Idaho First National Bank of Boise. It appears that the proposed transaction will not result in any change in the general character of assets of or broadening in the functions exercised by the member bank. Accordingly, the Board does not regard the transaction as coming within the scope of general condition numbered 3 under which the First Security Bank of Idaho was admitted to membership and the approval of the Board to the transaction is, therefore, not required.

"Please advise the bank accordingly."

Approved unanimously.

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

"This refers to your letter of May 8, 1937, and your subsequent conversations with members of the Board's staff with regard to the proposal of 'The Louisville

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"Trust Company", Louisville, Kentucky, to refund its outstanding notes secured by mortgage loans or real estate in the amount of \$1,424,175 through the sale of an equal amount of such notes at a reduced rate of interest. You requested advice as to whether such proposed transaction would violate a condition of membership to the effect that the institution shall not 'engage as a business' in selling notes representing real estate loans, and also as to whether such proposed transaction would violate section 21(a) of the Banking Act of 1933.

"While it does not appear that the sale of refunding notes would be prohibited by the conditions of membership, the Board does not approve the sale of refunding notes in the circumstances which you have described.

"According to the information submitted, the collateral behind the notes consists largely of other real estate and potential other real estate, and it is noted that President Rahill plans to sell the refunding certificates in whole or in part to banks which are correspondents of The Louisville Trust Company. The collateral trust notes would hardly appear to qualify as investment securities under the provisions of section 5136 of the Revised Statutes and the Comptroller's regulation, in which case the notes, therefore, would not be eligible for purchase by member banks.

"It is understood, also, that in conversations with you President Rahill stated that one of the advantages of the refunding operation is that, in addition to the savings because of the reduction in the interest rate, the bank, because of such reduction, might be able, from time to time, to repurchase at a discount the notes which are to have a maturity of only four years. It would seem that any plan which contemplated the sale of securities with the hope that they could be repurchased within a comparatively short time at a discount might react unfavorably upon the trust company as indicating a lack of good faith in its relations with its customers.

"It is assumed that the management of the bank has canvassed thoroughly the possibility of retiring the present issue as rapidly as possible, perhaps, if necessary, with the aid of money borrowed from its correspondent banks or the Federal Reserve bank, rather than continue to borrow money in the form of the collateral trust note issues.

"In connection with your inquiry regarding section 21(a), it is understood that, in view of the fact that a violation of this section is subject to a penalty of fine or imprisonment, The Louisville Trust Company has requested the Attorney General of the United States to rule whether

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"or not the proposed transaction would violate section 21(a) and that the Attorney General has not yet replied to the request of the trust company. In the circumstances, it would not appear appropriate for the Board at this time to express any view as to the applicability of section 21(a) to the proposed transaction."

Approved unanimously.

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

"This refers to your letter of June 2, 1937, and its inclosures, relating to the holding company affiliate status of American Holding Corporation, Chicago, Illinois, which was granted a general voting permit under date of January 4, 1935, authorizing it to vote the stock which it owns or controls of American National Bank and Trust Company of Chicago, Chicago, Illinois.

"It is understood that American National Bank and Trust Company of Chicago has outstanding 10,000 shares of common stock and 6,500 shares of preferred stock; that American Holding Corporation owns or controls 6,250 shares of the common stock; and that the Reconstruction Finance Corporation owns all of the preferred stock. From information obtained from the office of the Comptroller of the Currency it is understood that 9,281 shares of common stock and 6,500 shares of preferred stock were voted at the last election of directors of the bank. On the basis of the foregoing facts, it appears that American Holding Corporation is not now a holding company affiliate of American National Bank and Trust Company of Chicago.

"It is stated that certain changes in the capital structure of American National Bank and Trust Company of Chicago are contemplated and that under the proposed plan American Holding Corporation would become the owner of exactly 50% of the aggregate number of shares of stock of the bank. The Board cannot undertake to express an opinion at this time with respect to whether American Holding Corporation will be a holding company affiliate of the bank upon the consummation of such plan and feels that it should not attempt to do so until the proposed action has been taken and complete information is furnished.

"Your letter is not accompanied by sufficient information for the Board to undertake to consider the question whether it could properly determine that

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"American Holding 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, and it is not entirely clear that such a determination is desired. If American Holding Corporation desires to have the Board give consideration to that matter, complete information, as outlined in section 2 of the Board's Regulation P, should be furnished, particularly information with respect to whether such corporation owns or controls, directly or indirectly, any bank stock other than that which it owns or controls of American National Bank and Trust Company of Chicago.

"American Holding Corporation inquires whether subsection (b) or subsection (c) of section 5144 of the Revised Statutes, relating to reserve requirements, will be applicable with respect to shares of national bank stock as to which the statutory liability imposed upon holders of such bank stock is terminated on July 1, 1937. The Board is of the opinion that subsection (c), instead of subsection (b), will be applicable."

Approved unanimously.

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

"Receipt is acknowledged of your letters of June 14 and June 17, 1937, and inclosures, concerning a proposed renewal of the central bank credits to the National Bank of Hungary which mature on July 18, 1937.

"It is noted that it was the view of your directors after a discussion of the matter at their meeting on June 16, 1937, that the Federal reserve banks should associate themselves with the other creditors of the Hungarian National Bank in accepting, in principle, a proposal that these credits be renewed for a further period of three years, beginning July 18, 1937, under the following conditions:

1. Interest to be paid, and transferred in foreign exchange, at the rate of 1% per annum for the renewal period on both syndicate credits.
2. Three annual payments of  $4\frac{3}{4}\%$  each to be made (and transferred in foreign exchange) on the principal of the two syndicate credits, the first such payment to be made on October 1, 1937, and the second and third payments on October 1, 1938, and October 1, 1939, respectively.

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"It is also noted that, in addition to endeavoring to secure an increase from  $4\frac{3}{4}\%$  to  $5\%$  in the proposed payments on principal, which the directors of the Bank for International Settlements and the members of the syndicates represented on its board contemplated would be done, your bank would be disposed to attempt to secure a provision for reconsideration of the agreement, at the option of the creditors, at the end of one and two years and, conversely, you should expect to have eliminated those clauses in the last three year agreement (suspended during the period of the present nine months renewal) which would permit the National Bank of Hungary, in its discretion, to postpone the transfer of payments due on interest or principal.

"It is noted further that your bank would expect to continue the policy heretofore followed with respect to payments of interest and principal on the debts, which has permitted the National Bank of Hungary, in effect, to benefit by reason of the devaluation of the dollar, despite the gold clause in the original credit agreements, but that you would make it clear in the response to the present proposal that the payments of interest and principal are still due in dollars as legally defined on December 17, 1931 (the phrasing of the existing credit agreement) and that your pro rata participations in payments on principal are to be calculated on that basis as in the past.

"The Board approves the action taken by your directors as outlined in your letter of June 17 and in your telegram of the same date to the Presidents of the Federal reserve banks, with the understanding that you will have obtained the assent of the other Federal reserve banks to the proposal before you advise the Bank for International Settlements in the premises. The Board also approves the participation by the other Federal reserve banks in the renewal of the Hungarian central bank credits, and is advising them today by letter accordingly."

Approved unanimously.

Mr. Morrill submitted a recommendation, which had been approved by Mr. McKee as a member of the Personnel Committee, that the Board authorize the purchase of certain utensils and equipment for use in the cafeteria in the Board's new building, as listed in the following purchase orders, at a total cost of \$2,675.44:

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<u>Order No.</u>	<u>Amount</u>	<u>Order No.</u>	<u>Amount</u>
1615	\$470.75	1643	\$ 9.00
1626	3.16	1645	139.50
1627	3.75	1646	90.00
1628	68.50	1650	157.82
1629	18.50	1653	763.73
1632	170.71	1654	136.91
1636	464.60	1660	129.50
		1667	49.01

Approved unanimously.

Thereupon the meeting adjourned.

Chester Moriel  
Secretary.

Approved:

W. Stecker  
Chairman.