

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 27, 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. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Solomon, Assistant Counsel
Mr. Dembitz, Research Assistant in the Division of Security Loans

ALSO PRESENT: Mr. Hugh Leach, President of the Federal Reserve Bank of Richmond
Mr. J. G. Fry, Vice President of the Federal Reserve Bank of Richmond
Mr. M. G. Wallace, Counsel for the Federal Reserve Bank of Richmond
Mr. W. R. Milford, Managing Director of the Baltimore Branch of the Federal Reserve Bank of Richmond

There was presented a letter addressed to the Board today by President Leach of the Federal Reserve Bank of Richmond with respect to the request of the Union Trust Company of Maryland, Baltimore, Maryland, that the Board give its consent, under a condition of membership to which the trust company is subject, to the transfer of the stock of the trust company

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held by the City Certificates Corporation as contemplated by a revised plan submitted by the trust company to the Federal Reserve Bank of Richmond for the retirement of the certificates of beneficial interest issued by the City Certificates Corporation to the waiving depositors of the trust company. The letter read as follows:

"On June 7, 1937, we forwarded to you a proposed amended agreement between the Union Trust Company of Maryland, Baltimore, Maryland, and the City Certificates Corporation, Baltimore, Maryland, which amended agreement was proposed for the purpose of liquidating the City Certificates Corporation.

"On July 25, 1937, Mr. Thomas B. McAdams, President of the Union Trust Company, submitted orally to Messrs. Hugh Leach, J. G. Fry, M. G. Wallace, and W. R. Milford of the Federal Reserve Bank of Richmond, a revised proposal which is outlined in the attached memorandum.

"With respect to the revised proposal, I submit the following comments:

- Necessity for action
- (1) Both large and small certificate holders are urging a satisfactory settlement for the non-interest bearing certificates of no definite maturity.
 - (2) The continued existence of the City Certificates Corporation handicaps the growth and earnings of the Trust Company.
 - (3) The present market value of certificates of \$40 to \$45 has been created largely through purchases by insolvent borrowers in order to effect settlement of their indebtedness to the Trust Company. Inasmuch as the volume of such purchases is diminishing, it is reasonable to assume that the market value of the certificates will decline and the disappointment of certificate holders will be aggravated.
 - (4) In order to fix a basis for calculation, it was necessary to close the transfer books for certificates, as a result of which the certificate holders know that a plan is being prepared. If the books are reopened it will be difficult for the management to give a satisfactory explanation.

- Benefit to certificate holders
- (1) Over one half in number (19,055) of certificate holders would be paid in full in cash. The remaining

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"18,701 certificate holders would receive some cash and marketable stock.

- (2) Voting control of the Trust Company would pass from the old stockholders to certificate holders.

Benefit to Trust Company

The Trust Company would be able to compete for business on an equal basis with other Baltimore banks; an opportunity which it has not enjoyed since its reorganization.

Rights of Stockholders

- (1) Regardless of whether or not the reorganization plan of the Union Trust Company was equitable to all parties concerned, the stockholders of that Company acquired certain enforceable rights under the plan, which rights must be given due consideration at this time. The original stock was not donated to the depositors. The ownership of the Union Trust Company vests in the stockholders of the City Certificates Corporation and the non-assenting stockholders of the Union Trust Company subject to a lien on recoveries and earnings equal to the face amount of the outstanding non-interest bearing certificates. In the opinion of our counsel and of outstanding Baltimore attorneys, the City Certificates Corporation cannot be liquidated without a vote of two-thirds of its stockholders nor can substantially all of its assets be transferred to certificate holders without the consent of two-thirds of the stockholders. Mr. Webster Smith, a Baltimore attorney, told us that in view of the advice given by several leading firms of attorneys of Baltimore, the directors of the City Certificates Corporation would be unwilling to put any plan involving the distribution of substantially all of its assets into effect without the approval of stockholders and he did not think the stockholders could be induced to vote in favor of any proposal unless it appeared that they would receive benefits substantially equal to those provided in the plan under consideration.

Recommendation

From my knowledge of the banking situation in Baltimore, I am convinced that the Trust Company will be seriously handicapped if an equitable plan is not effected at this time.

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"In my opinion it is impossible for anyone to determine the relative monetary value of the rights of the certificate holders and the stockholders. As to whether or not the rights of the stockholders are properly valued in the proposed plan is a matter of opinion but I do not think the amount proposed is sufficiently large to justify the responsibility that would be assumed by refusing the request which is conditioned upon the consent of two-thirds of the certificate holders and two-thirds of the stockholders as well as the approval of the Bank Commissioner of the State of Maryland. I, therefore, recommend that the requested permission be granted."

There was also presented a memorandum dated July 27, 1937, prepared by Mr. Leonard, Assistant Chief of the Division of Examinations, submitting the following recommendations of the Division of Examinations:

"There is a serious legal question as to whether the directors of the City Certificates Corporation would be justified in distributing the assets of the corporation (stock of the Union Trust Company) to the holders of the certificates of beneficial interest without authorization of the stockholders, and the recommendation of this Division depends upon the determination of that question.

"If it be determined that the directors would be justified in making such distribution without stockholders' action, it is recommended that the Board reaffirm its position that a distribution to the stockholders of the corporation at the expense of the certificate holders is unjustified and that the Board refuse its assent to the transfer of the stock to the stockholders of the City Certificates Corporation.

"If, on the other hand, it be determined that stockholders' action is required, it is recommended that the bank be advised that the Board will not withhold its assent to the transfer of the stock of the trust company in accordance with a plan adopted by 2/3 in number of the certificate holders who will not receive cash payment in full and representing in amount 2/3 of the certificates which will not be paid in full provided that the plan as submitted to the certificate holders clearly and simply sets forth the details of the plan and advises the certificate holders specifically not only what they will receive under the proposed plan, but what they are giving up; and provided further, that the management of the trust company and the

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"corporation agree that, in explaining the plan or soliciting assents, no representations, either direct or indirect, will be made to the effect that the Board has approved or will approve the plan.

"The basis for the second recommendation is that if stockholders' action is required, representatives of the trust company and the Reserve Bank maintain that it cannot be obtained without some consideration. In such event, it would appear that the question resolves itself into a question of price and it is submitted that the question of the fairness of price is not a matter for determination by the Board, but a matter for negotiation between the interested parties."

The memorandum also suggested that if the directors of the City Certificates Corporation are in a position to distribute the assets of the corporation to the certificate holders without submitting the matter to the stockholders, the fairest and most simple plan, which would eliminate the preferred status of the non-assenting stockholders of the Union Trust Company, would be the organization of a new bank to succeed the present institution, the transfer by the present bank to the City Certificates Corporation of the stock of the new bank, and the distribution of all of the stock of the new bank to the certificate holders after as large a cash distribution as possible has been made.

In connection with the legal question mentioned above, reference was made to a memorandum prepared by Mr. Wingfield under date of July 26, 1937, which stated that, while it might be argued that the board of directors could dispose of the assets of the corporation without the approval of the shareholders, since, in any action which the directors of the City Certificates Corporation might take they would be guided by the opinion of their own attorneys, it did not seem to be desirable for

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the Board to assume the responsibility of suggesting that the directors of the corporation be guided by an opinion of counsel for the Board. Therefore, it was suggested that, if any action taken by the Board of Governors be based on the question whether the directors of the City Certificates Corporation may act independently of the shareholders of the corporation, such action be based on a written opinion of reputable attorneys for the City Certificates Corporation.

Attention was called to the fact that the revised plan submitted by the Union Trust Company does not differ greatly from the plan previously submitted but does provide for approval by two-thirds of the shareholders of the City Certificates Corporation as well as two thirds of the holders of the certificates of beneficial interest. Mr. Ransom raised a question whether the condition of membership under which the permission of the Board is required was prescribed as a means of providing that the stock of the trust company would be retained by the City Certificates Corporation until the certificates of beneficial interest were paid in full or to give the Board an opportunity to review any plan which might be advanced at an earlier date for the dissolution of the corporation and the disposition of its assets. The opinion expressed by members of the staff who had participated in the discussions at the time of the adoption of the condition was that it had been imposed for the latter purpose.

During a discussion of the actions which might be taken by the Board in the premises, the opinion was concurred in by the members of the Board that, in order to afford an opportunity to study the matter

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further, action should be deferred.

Thereupon Messrs. Wingfield, Leach, Fry, Wallace and Milford left the meeting.

A further discussion of the plan proposed by the Union Trust Company ensued and it was agreed that the matter should be placed on the docket for consideration at the meeting of the Board on Thursday, July 29, 1937; it being understood that Mr. Paulger will be prepared at that time to discuss the recommendation of the Federal Reserve Bank of Richmond as contained in Mr. Leach's letter and to present any recommendation that he may have to make in connection therewith.

At this point Messrs. Paulger, Leonard and Thomas left the room.

Reference was made to the draft of a proposed revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers and Members of National Securities Exchanges, which was presented at the meeting of the Board on June 30, 1937.

Mr. Parry described briefly the important changes proposed to be made in the regulation and stated the principal arguments which might be advanced for and against the changes. In connection particularly with the proposal to prescribe the same margin requirements for short sales as are required in connection with purchases of securities on margin, Mr. Parry stated that he had discussed the provision with Chairman Landis and Mr. David Saperstein, Director of the Trading and Exchange Division, of the Securities Exchange Commission, and that they favored the inclusion of such a provision in the regulation.

At the conclusion of a discussion of questions presented by the proposed changes, Mr. Szymczak moved that a letter, reading as follows, be sent to the Federal reserve banks:

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"Inclosed are six copies of a tentative draft of a proposed general revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which has been prepared at the direction of the Board but which has not yet been acted upon by the Board. Additional copies are being sent under separate cover.

"You will note that this is a preliminary draft and that it is not for publication.

"Please submit copies to any national securities exchanges located in your district, and request them to consider the draft in confidence, with every precaution against notice by the press, and to submit to you in writing their comments, criticisms and suggestions. Please forward these to the Board as soon as they are received, and furnish to the Board within a reasonable time any comments, criticisms or suggestions of your own.

"It is anticipated that some of the exchanges and some of the Federal Reserve banks will submit their comments within two or three weeks, but that others will desire additional time. All comments, however, should reach the Board not later than September 15, 1937."

Carried unanimously.

During the course of the discussion of Regulation T, Mr. Broderick suggested that action should be taken by the Board to eliminate in Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, the distinction between old and new loans and it was agreed that Mr. Parry should prepare for consideration at the meeting of the Board on Thursday, July 29, a draft of an amendment to Regulation U which would effect such an elimination.

Mr. Ransom referred to the action taken at the meeting of the Board on June 30, 1937, requesting counsel to prepare tentative amendments to certain sections of S.2700, a bill to provide for reorganizing agencies of the Government, extending the classified Civil Service, establishing a general auditing office and department of welfare, and for other purposes, and stated that, following conferences of senior members of the staff, Mr. Wyatt had submitted to him (Mr. Ransom) a memorandum dated July 12, 1937, to which was attached a draft of the

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amendments requested by the Board. At the suggestion of Mr. Ransom, Mr. Wyatt reviewed the present status of the reorganization bills in the Senate and House of Representatives, stating that the features of the Senate bill which were objectionable to the Board were not in the House bills and that he was watching the progress of the latter closely with a view to bringing to the attention of the Board promptly the incorporation in such bills of any provisions to which the Board had indicated an objection. Mr. Wyatt also suggested that any action by the Board with respect to S.2700 might be deferred until a chairman of the Special Senate Reorganization Committee is named when, if it appeared that the bill is to receive consideration by the Senate at this session of Congress, a request might be made by the Board that it be given an opportunity to express an opinion with respect to the objectionable features of the Senate bill.

It was agreed by the members present that the matter required no action by the Board at this time.

There was then presented a letter received under date of July 19, 1937, from President Peyton of the Federal Reserve Bank of Minneapolis, reading as follows:

"Leaving here Tuesday morning, last, I spent Wednesday afternoon, Thursday, and Friday in Helena. Before leaving there, and after conferences with its officials, I thought there was a very good chance of buying the building of the Montana Life Insurance Company for the Branch for \$115,000. less the cost to us of remodelling for our use.

"Today I received a telephone call from Mr. Cunningham, Treasurer of the company, advising that the company had definitely decided not to sell to us. He assured me the purchase price was perfectly satisfactory, but that the company did not feel it could make any plans at this time

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"encompassing the sale of the building. Doubtless local civic sentiment, which seems 100% determined that we build a new building at Helena, has had some effect on this decision. Today I wired Mr. Cunningham as follows:

'Will not exercise option until twenty-eighth.

Should you have change of heart before that time advise me.'

"We must, therefore, assume that we will proceed with the erection of a \$100,000 building in Helena, with the additional cost of \$15,000 for the lot, if I hear nothing further from the Montana Life Insurance Company by July 28.

"I have instructed Mr. Towle to exercise the option on July 28 unless I advise him to the contrary."

Chairman Eccles stated that he had requested that the letter be discussed at the meeting of the Board today for the reason that if the action proposed by Mr. Peyton is not entirely satisfactory the Board should advise him before tomorrow, July 28, that being the date upon which it is proposed to exercise the option for the purchase of the site for the Helena branch building.

No objection was raised to the program outlined in Mr. Peyton's letter and it was agreed that no further action need be taken by the Board in the matter at this time.

At this point Messrs. Thurston, Wyatt, Parry, Dreibelbis, Solomon and Dembitz left the meeting and consideration was then given to the following matters 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 July 26, 1937, were approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In view of the statements contained in your letter of July 20, 1937, the Board approves the payment of salaries in excess of the maximums provided in the

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"personnel classification plan for the positions occupied to the following employees in the amounts shown:

<u>Name</u>	<u>Position</u>	<u>Annual salary</u>	<u>Maximum for position in personnel classification plan</u>
Frederick Eckstrom	Asst. Supervisor, R.F.C. and P.W.A. Custody Dept., Omaha Branch	\$2,580	\$2,400
Clyde C. Addison	Junior Clerk-A, Head Office	1,896	1,800"

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. Stiles
Chairman.