

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 4, 1937, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
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. Sloan, Federal Reserve Examiner

Mr. Szymczak stated that replies to the Board's letter of July 27, 1937, with respect to the proposed revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, had been received from all Federal reserve banks; that a draft of the revised regulation was being prepared by the Division of Security Loans for consideration by the senior staff early next week; that a revised draft would be ready for consideration by the Board about the middle of the month; that consideration might then be given to the question of the desirability of giving the New York Stock Exchange an opportunity to present any views that it

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might have; and that it would be desirable if the revised regulation could be adopted before the end of the month with a view to making the regulation effective as of January 1, 1938, in order that interested persons might have at least a month within which to become acquainted with the provisions of the new regulation before it is made effective. The members of the Board expressed agreement with the program outlined by Mr. Szymczak.

At this point Mr. Parry left the meeting.

There was presented a memorandum dated September 18, 1937, from Mr. Leonard calling attention to copies of correspondence between the Federal Reserve Bank of Kansas City and the President of the Farmers State Bank, Wallace, Nebraska, in connection with the State bank's application for membership in the Federal Reserve System. The letter addressed by the Federal reserve bank to the President of the State bank under date of July 24, 1937, stated that, while the applicant bank was in satisfactory condition with good management, the institution was located in an over-banked community and in a rather poor farming and grazing territory and that, because of the many elements adverse to its continued successful operation, the administrative committee of the Federal reserve bank had decided that if the application were submitted to the Board of Governors it would be with the recommendation of the reserve bank that it be not granted. The letter stated that it was thought unlikely that the Board of Governors

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would act favorably on the application for membership without a favorable recommendation from the reserve bank's administrative committee although final action on the application was in the hands of the Board rather than the Federal reserve bank. The letter requested that the applicant bank advise the reserve bank whether it wished to withdraw the application or whether the reserve bank should send it to the Board of Governors for consideration. In response to this letter the President of the applicant bank advised the Federal reserve bank under date of August 11 that the application for membership should be canceled. The file had been circulated among the members of the Board for consideration of the question whether the case had been handled in accordance with the System policy of encouraging membership.

After discussion, during which the suggestion was made that the Federal Reserve banks should be instructed in situations of this kind to send the application for membership to the Board for consideration before any opinion is expressed by the reserve bank to the applicant bank, the Division of Examinations was requested to prepare for consideration by the Board a draft of letter to the Federal reserve banks along the lines of this suggestion, and it was understood that Messrs. Davis and Paulger, when they are in Kansas City next week, would discuss the application of the Farmers State Bank, Wallace, Nebraska, with President Hamilton.

Reference was made to a memorandum dated November 3, 1937, from the Division of Examinations with respect to the preliminary application for membership in the Federal Reserve System made on behalf

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of "The Union Bank of Commerce Company", Cleveland, Ohio, a new bank to be organized in accordance with a plan for reorganizing the affairs of the Union Trust Company, Cleveland, Ohio, a former member bank which was not licensed to reopen following the banking holiday and which was placed in charge of the State Banking Department in June 1933. There was also presented a memorandum dated November 3 from Mr. Wingfield with respect to the legal questions involved in the reorganization plan. Copies of the memoranda had been sent to the members of the Board prior to this meeting. The memorandum from the Division of Examinations, which recommended that the application be approved subject to certain conditions and comments, contained the following statement:

"There is a question as to whether the depositors would fare better under the proposed plan or under continued liquidation. The equity of certain provisions of the plan is open to question. Serious legal questions regarding the power of the authorities to consummate the plan and as to the possibility of having the plan subsequently upset if approved by the court have been raised. The recommendation of this Division is made upon the basis that, as stated by the Board in its letter of October 7, 1937, the responsibility for the protection of the depositors of the old bank rests with the State authorities, and that the organization of the new bank and the transaction between the new bank and the liquidators of the old will be legally and properly carried out."

At the conclusion of a discussion of the plan of reorganization as outlined in the memorandum referred to, upon motion by Mr. McKee, unanimous approval was given to a letter to the organizers of the applicant bank stating that, effective if

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and when the new bank is duly authorized to commence business by the Ohio State Banking Department, and subject to the standard conditions of membership numbered 1 to 6 in the Board's Regulation H and the following special conditions, the Board of Governors approves the application made on behalf of The Union Bank of Commerce Company for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "7. Prior to admission to membership, such bank shall have been duly incorporated under the laws of the State of Ohio with a paid in, unimpaired capital stock and surplus of \$5,000,000 and \$2,000,000, respectively, pursuant to the provisions of a Plan for Reorganizing the Affairs of The Union Trust Company, Cleveland, Ohio, dated September 1, 1937 (Third Proof, uncorrected), hereinafter referred to in this letter as the Plan, with such changes in the Plan as may be necessary under the conditions prescribed in this letter, which Plan including any such changes shall have been approved by the Superintendent of Banks for the State of Ohio, and, after reasonable notice to all parties at interest and a hearing, by an order of the Court of Common Pleas of Cuyahoga County of the State of Ohio which has become finally effective and is not subject to review by the Appellate Courts of that State or to a restraining order under the statutes of that State. (It is not contemplated that any of the provisions of this condition of membership will prevent equitable changes in the plan which will not adversely affect the interests of the new bank.)
- "8. At the time of admission to membership, such bank shall have assets and liabilities substantially as described in the pro forma balance sheet included with the Plan, and the assets transferred to the bank under the Plan shall be only such assets as shall be determined to be acceptable by examiners for the Federal Reserve Bank of Cleveland.
- "9. Prior to admission to membership, the stock of Union Properties, Inc., which under the provisions of the Plan is to be owned by the bank, shall be assigned

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"and delivered in trust by the bank to the Noteholders Committee described in the Plan and such Noteholders Committee shall be charged with the duty to hold and vote such stock in such manner as, in their absolute discretion, will serve the best interests of the holders of Creditors Notes of Union Properties, Inc. as long as any of such Creditors Notes are outstanding and, when all of such Notes have been retired, to return the stock of Union Properties, Inc. to the bank.

"10. Upon the submission of the Plan to stockholders, depositors and other creditors of The Union Trust Company and to the Court of Common Pleas of Cuyahoga County, there shall be included in the Plan, in addition to any other information, the following:

- (a) A current statement of the trust showing the estimated liquidating value of all classes of assets of The Union Trust Company, including the stockholders' liability assessments, under the proposed plan for reorganization and under continued liquidation by the State Banking Department; the amount of allowed claims against the trust; the amount of all other recognized obligations of the trust; and the amount, nature, and purpose of all reserves.
- (b) Opinion rendered by counsel for the Deputy Superintendent of Banks in charge of The Union Trust Company under date of October 16, 1937, as to the probability of the Court of Appeals and the Supreme Court of Ohio affirming the decision of the Court of Common Pleas in the case of the suit of certain stockholders contesting the validity of the assessment of their statutory liability, together with his estimate as to the probable date when such case could finally be decided by the court of last resort.
- (c) A clear and definite statement with respect to the legal right of depositors and creditors of The Union Trust Company to receive interest upon their allowed claims from the date upon which such trust company was placed in the hands of the Superintendent

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"of Banks until such claims are paid, the rate of interest to which they are entitled, and the aggregate amount of interest accrued to date of statement, the past practice of the Superintendent of Banks of Ohio with respect to the payment of interest on claims against banks liquidated by the State Banking Department, and the fact that under the Plan the depositors of The Union Trust Company will waive any interest on their claims against The Union Trust Company.

- "11. Upon the submission of the Plan to stockholders, depositors and other creditors of The Union Trust Company, and to the Court of Common Pleas of Cuyahoga County, there shall be included in the Plan, in addition to any other information, the following statement:

It is contemplated that the proposed new bank, The Union Bank of Commerce Company, will be a member of the Federal Reserve System and the Board of Governors of the Federal Reserve System has approved an application for membership made on behalf of such bank, effective if and when the bank is duly authorized to commence business by the Ohio State Banking Department, subject to certain conditions, including the following:

(Here quote condition numbered 7.)

The Board of Governors of the Federal Reserve System wishes it to be understood that its approval of the application for membership is not to be considered as an expression of opinion as to the proposed plan of reorganization as it affects the depositors, other creditors, and stockholders of The Union Trust Company. The desirability of the proposed plan of reorganization is a matter for determination by them, and by the Superintendent of Banks and the courts of the State of Ohio upon whom rests the responsibility for safeguarding the interests of those having an interest in the liquidation of the trust company. In approving the application for membership the Board of Governors has not undertaken to share in that responsibility.

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- "12. Prior to the submission of the Plan to the depositors and stockholders of The Union Trust Company and the Court of Common Pleas of Cuyahoga County, such amendments shall be made to the plan as are necessary to make it conform to the requirements contained in the conditions set forth in this letter.
- "13. Prior to admission to membership, any agreements and contracts entered into between such bank and the Superintendent of Banks of the State of Ohio in charge of the liquidation of The Union Trust Company covering the transfer of certain assets and liabilities of The Union Trust Company to The Union Bank of Commerce Company pursuant to the Plan, and any and all other agreements between the new bank and other individuals or concerns, incident to the organization of such bank and to the consummation of the Plan, shall be satisfactory to the counsel for the Federal Reserve Bank of Cleveland, and, prior to admission to membership, The Union Bank of Commerce Company shall deliver two certified copies of its charter, together with any amendments thereto, to such Federal Reserve bank."

The letter also contained the following special comments:

"In addition to the inclusion in the statement of the Plan of certain portions of this letter as required by condition of membership numbered 11, the Board will interpose no objection to this letter being made public in whole or in part.

"It is understood that the bank will be vested with authority to exercise trust powers, and, in the event these powers are exercised, the Board will expect the bank to conduct the operations of its trust department in accordance with approved trust practices.

"Since the application for membership was made on behalf of The Union Bank of Commerce Company prior to its organization, it is requested that, in connection with the acceptance of the conditions of membership prescribed by the Board, the board of directors of the bank ratify the action which has been taken on its behalf in making application for membership in the Federal Reserve System."

Upon motion by Mr. McKee, the following letter to President Fleming of the Federal Reserve Bank of Cleveland, was also approved unanimously.

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"The Board of Governors of the Federal Reserve System approves the application made on behalf of the proposed 'The Union Bank of Commerce Company', Cleveland, 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 organizers of the proposed 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.

"In connection with condition numbered 7, it is contemplated that, before the bank is admitted to membership, your counsel shall be satisfied that any appeal from the order of the Court of Common Pleas approving the plan shall have been denied by the court of last resort in Ohio or the time for perfecting any such appeal shall have expired, and if any proceedings for a restraining order have been instituted, that the restraining order shall have been denied by the court of last resort in the State or the statutory period within which any restraining order might be sought shall have expired.

"Condition of membership numbered 8 provides that only such assets shall be transferred to the new bank under the plan for reorganizing the affairs of The Union Trust Company as shall be determined to be acceptable by examiners for your bank. In this connection it is felt that any investment securities so transferred should be securities which would be eligible under the law and the regulations of the Comptroller of the Currency for purchase by the bank as a member bank.

"Before issuing stock in the Federal Reserve Bank to The Union Bank of Commerce Company, you are requested to satisfy yourself that the organization papers and all agreements and contracts entered into between such bank and the Superintendent of Banks of the State of Ohio covering the transfer of certain assets and liabilities of The Union Trust Company to The Union Bank of Commerce Company pursuant to the Plan, and any and all other agreements between the new bank and other individuals or concerns incident to the organization of the new bank and to the consummation of the Plan, have been considered by your counsel and that he is satisfied as to their legal aspects. It is understood, of course, that any conclusions reached by Counsel in these respects may be subject to the reservations of which he has heretofore advised the Board. It is requested that a copy of the opinion of your counsel in this connection,

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"together with copies of any such agreements and organization papers, including a copy of the order of the Court of Common Pleas of Cuyahoga County approving the Plan and of the bank's charter and any amendments thereto, be forwarded to the Board as soon as possible. It is requested also that you satisfy yourself that the charter of the bank contains no provisions granting powers other than those usually conferred upon institutions transacting a banking and trust business under the laws of the State of Ohio.

"The Board understands that the Trustees holding the stock of The Union Bank of Commerce Company for the account of the stockholders of The Union Trust Company will not be a holding company affiliate of The Union Bank of Commerce Company within the meaning of Section 2(c) of the Banking Act of 1933, but it is requested that your counsel satisfy himself on this point before The Union Bank of Commerce Company is admitted to membership.

"It is understood that under the laws of Ohio trust funds held by a bank and deposited in its own banking department are fully protected by statutory preference. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization contained in the Board's letter of March 8, 1935."

At this point Mr. Wingfield left the meeting and Mr. Smead, Chief of the Division of Bank Operations, entered the room.

Consideration was given to a draft of letter to Mr. Donald S. Thompson, Acting Chief of the Division of Research and Statistics of the Federal Deposit Insurance Corporation, reading as follows:

"Referring to Chairman Crowley's letter of October 22 and Chairman Eccles' reply of October 28, and pursuant to the arrangements made while you were in our offices Monday, November 1, we are arranging to send you the following records pertaining to group and chain banking:

- (1) A photostat copy of a 4-page memorandum dated May 7, 1927 from Mr. Smead to Mr. Eddy, subject 'Chain Banking', and of the accompanying 30-page list of chain banks as of June 1926.

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- "(2) A mimeographed copy (St. 6214) of a 3-page memorandum dated January 17, 1929 from Mr. Van Fossen to the Board, a 4-page summary by States, and a 98-page list of chain banks, all as of the end of June 1928.
- (3) A photostat copy of a 61-page summary by States, on Form B-128, of group and chain banking as of the end of June and December, 1929, 1930 and 1931. This shows the number of groups and chains in each State, and the aggregate number and loans and investments of national banks, State bank members and nonmember banks, respectively, reported as members of groups and chains.
- (4) A photostat copy of lists, on Form B-128, covering each group system, showing the name, location and loans and investments of each bank which was a member of the group at the end of June and December of 1929, 1930 and 1931. This is divided into two parts, namely:
- (a) 34 principal groups (67 pages)
 - (b) 63 other groups (63 pages).

The section covering the 63 'Other' groups shows, in the right hand margin, all changes in the status of each of the group banks through December 31, 1936.

- (5) A photostat copy of 44 work sheets showing all changes in status during 1932-1936 of each bank which was a member of one of the 34 leading groups at the end of 1931."

Approved unanimously.

Mr. Morrill was authorized to arrange with Harris and Ewing and Wm. M. Rittase, photographers who had made photographs of the exterior and interior of the new building, for twenty sets of photographs, at a total cost of not to exceed \$225.00, for the purpose of sending one set to each Federal Reserve bank and furnishing a set to each member of the Board.

At this point Messrs. Thurston, Wyatt, Paulger, Smead, Dreibelbis, Leonard, and Sloan left the meeting and consideration was then given to

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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 October 29, 1937, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 30, November 1, and 2, 1937, were approved and the actions recorded therein were ratified unanimously.

Telegrams to Mr. Leach, President of the Federal Reserve Bank of Richmond, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

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 September 23, 1937, advising of the plan of the St. Louis County Bank, Clayton, Missouri, to divorce the General Realty Company, also of Clayton, Missouri, from the bank and to disassociate the company from the bank in the minds of the public.

"It is understood that the General Realty Company was organized in November, 1936, with a paid-in capital of \$42,500, represented by 425 shares of preferred stock, and with 1,000 shares of nonpar common stock; that part of the preferred stock was purchased by certain stockholders of the bank but none of it is owned by the bank; that, under

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"an agreement between the bank and the realty company, the common stock has been issued to three trustees under a voting trust agreement and the trustees, in turn, have issued to the stockholders of the bank on a pro rata basis voting trust certificates representing the beneficial interests in the common stock of the company; that the three trustees were appointed by, and are directors of, the bank; that vacancies among the trustees are to be filled by the bank; and that, of the five directors of the realty company, two are directors and one an officer of the bank. As you know, the Board, in its letter of May 7, 1937, took the position that, under such an arrangement, it would be in violation of standard condition of membership numbered 3, which has been accepted by the bank, for the realty company to engage generally in the business of selling real estate loans to the public.

"It is noted that the plan referred to above contemplates that the officer of the bank who is now a director of the realty company will resign from his office in the latter capacity; that a new director will be elected to fill this vacancy who will be a stockholder of the realty company but not a stockholder, director, officer or employee of the bank; that the voting trust agreement then will be amended so that vacancies among the trustees shall be filled and a successor named by a majority of the holders of the preferred stock of the realty company who are present at a meeting called for that purpose; and that, following these steps, the present trustees under the voting trust will resign and will be succeeded by persons who are neither substantial stockholders nor officers, directors, or employees of the bank.

"In the circumstances, and in the light of your previous discussion with members of the Board's staff with regard to this matter, the Board concurs in your opinion that the consummation of this plan will accomplish that which is necessary to conform to the principles outlined in the Board's letter of May 7, 1937. However, the Board does not have sufficient information to enable it to determine whether General Realty Company will be an affiliate of the bank within the meaning of section 2(b)(2) of the Banking Act of 1933 if the plan is consummated and it does not appear necessary to rule upon that question at this time."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

W. S. Lewis
Chairman.