

Gov. Eccles

March 9, 1949.

Members of the Board

Mr. Vardaman

Mr. Millard's Memorandum of
February 11 re investigation of possible
violation of Federal statutes by United
Bank and Trust Company, St. Louis, Mo.

Mr. Millard's memorandum of February 11 is interesting and raises certain points in my mind to which I would like to call the Board's attention:

1. Mr. Millard's statement reveals that the examiners of the St. Louis Federal Reserve Bank did not discover the error, but that it was brought to Mr. Peterson's attention by an officer and director of the United Bank, who called at Peterson's office specifically for this purpose. The failure of the St. Louis Federal Reserve examiners to discover a bad banking practice as obvious as this raises a question in my mind as to the thoroughness of the Federal Reserve's examination practices. The account in question has been on the books of the member bank for a number of years and there has been no effort at concealment or deception. The account was in the name of an officer of the member bank followed by the word "trustee". One wonders why the examiners did not investigate the account if they had followed the time-old custom of thumbing through all accounts in a bank to catch those in the names of officers or directors; or if they followed the likewise well established custom of asking the member bank at the inception of the examination to furnish a list to the examiners of all accounts on their bank's books in the names of officers or directors of the bank under examination and of other banks in the same city.

2. The record does not show that the United States Attorney's office was advised, when this matter was reported to that office, that the account had been brought to the attention of the Federal Reserve Bank's officials by an officer and director of the member bank; that the subject account was not "discovered" by the examiners; and that at no time was there any effort on the part of the member bank at concealment or deception; nor was there any evidence of criminal intent.

On the other hand, the inference to be drawn from the communication sent to the United States Attorney by the Federal Reserve Bank of St. Louis, and also by the communication sent to this Board by the St. Louis Federal Reserve was that the Federal Reserve examiners had discovered the item and had really "caught" the bank doing something improper and probably dishonest. This is borne out by the fact that when the matter was discussed with the Board here, Chairman McCabe was so convinced that the Federal Reserve had "caught" a miscreant that he suggested that the examiner in question (Mr. Chapman) be complimented for his shrewdness and efficiency in "discovering" the questioned account.

3. It is to be hoped that Mr. Millard is correct in his assumption that there is no feeling of prejudice toward the United Bank on the part of certain personnel of the St. Louis Bank; but it does not seem to me that such assumption is warranted by the way the St. Louis Federal Reserve has handled this matter:

(1) The St. Louis Federal Reserve failed to report all the true circumstances to the United States Attorney in St. Louis.

(2) The St. Louis Federal Reserve failed to report all the true circumstances to this Board.

4. I do not want it considered that I have any patience with the member bank for its conduct in this case. However, I think the incident is much more important than the individuals or the one bank involved, and my principal object in calling it again to the Board's attention is to show what I believe to be a fundamental weakness in the St. Louis Federal Reserve's concept and application of its regulatory powers, particularly with reference to bank examinations. I am not sure but that this erroneous concept exists in other banks in the system.

In this instance, we have an officer and director of a member bank visiting the office of the Federal Reserve Bank and asking for advice and counsel with reference to a questionable accounting practice being followed in the member bank. In response to this visit, the Federal Reserve Bank made its examinations and reported the matter to this Board and to the United States Attorney as though the member bank had been "caught" and was guilty of some concealed improper action and criminal intent. The record does not reveal the fact that the member bank was doubtful itself of the propriety of its practice and had come to the supervisory authorities seeking instruction, advice and guidance.

I recommend strongly that the Board learn more about the concept and practice of the respective Federal Reserve Banks in their regulatory powers, especially that with reference to examination, and that the Board endeavor to satisfy itself that steps are taken in the respective Federal Reserve Banks to reduce to a minimum the probability of a repetition of such incidents as this.
