

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, December 17, 1926 at 2:45 p.m.

PRESENT: Governor Crissinger  
Mr. Platt  
Mr. Hamlin  
Mr. James  
Mr. Cunningham  
Mr. Eddy, Secretary  
Mr. McClelland, Asst. Secretary

The reading of the minutes of the meetings of the Federal Reserve Board held on December 10th, 14th and 15th was dispensed with.

Memorandum from Mr. Cunningham dated December 17th, advising that he proposes to increase the salary of his private secretary, Miss Leona H. Beller, from \$2500 to \$2600 per annum, effective January 1, 1927, the anniversary of her employment.

Noted.

The Governor then presented letters dated December 10th, 13th and 14th from the Chairmen of the Federal Reserve Banks of Minneapolis, Kansas City and Atlanta, respectively, replying to letters addressed to them in accordance with the instructions given by the Board at the meeting on December 8th, requesting the details of any plan approved by their boards of directors for a change in their present method of handling non-cash collection items, with particular reference to items collectible at street addresses.

After discussion of the plans set forth in the above letters, it was voted that the consideration thereof be made special order of business for a meeting to be held on Wednesday, December 22nd, and that the Chairmen of the Federal Reserve Banks of Kansas City, Minneapolis and Atlanta be requested to take no action toward carrying out the plans they reported until they hear further from the Board.

Telegram dated December 15th from the Chairman of the Federal Reserve

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Bank of Boston, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated December 16th from the Secretary of the Federal Reserve Bank of New York, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated December 15th from the Chairman of the Federal Reserve Bank of Philadelphia, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated December 17th from the Chairman of the Federal Reserve Bank of Chicago, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated December 15th from the Chairman of the Federal Reserve Bank of St. Louis, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated December 15th from the Secretary of the Federal Reserve Bank of Minneapolis, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated December 16th from the Secretary of the Federal Reserve Bank of San Francisco, advising that there has been no change in the bank's existing schedule of rates of discount and purchase.

Noted.

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Letter dated December 15th from the Chairman of the Federal Reserve Bank of St. Louis, advising of the reelection of Mr. Breckinridge Jones as member of the Federal Advisory Council from the 8th Federal Reserve District during the year 1927 and the reappointment of the following directors at branches of the bank, effective January 1, 1927:

Louisville

W. P. Kincheloe, Managing Director - one year  
Eugene E. Hoge - three years

Memphis

W. H. Glasgow, Managing Director - one year  
John D. McDowell - three years

Little Rock

A. F. Bailey, Managing Director - one year  
Stuart Wilson - three years

Noted.

Letter dated December 14th from the Federal Reserve Agent at Atlanta, advising that subject to the approval of the Board he has designated Mr. Earl P. Paris, Mr. J. J. Byrne and Mr. T. M. Taul as regular examiners for the year 1927, and the following officers of the bank as special examiners for the year:

Ward Albertson, Assistant Federal Reserve Agent  
Creed Taylor, Deputy Governor  
W. S. Johns, General Auditor  
J. W. Honour, Assistant Auditor  
H. F. Conniff, Assistant Cashier  
J. A. Walker, Cashier, New Orleans Branch

Approved.

Letter dated December 16th from the Assistant Vice President of the National City Bank of New York, advising that on January 2nd the bank will open the branch in the town of Palma Soriano, Cuba, previously approved



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by the Board.

Noted.

Letter dated December 16th from the Assistant Vice President of the National City Bank of New York, advising that the branch of that bank located at Bayamo, Cuba, will be discontinued at close of business December 24, 1926.

Noted.

Report of Committee on Salaries and Expenditures on letter dated December 14th from the Federal Reserve Agent at Kansas City, requesting approval of the action of the Executive Committee of that bank in voting to grant an extension of sixty days from December 1st, with half pay, in leave of absence on account of illness granted Miss Verna D. Seibert, clerk in charge of the bank's general files; the Committee recommending approval.

Upon motion, it was voted to approve payment of half salary to Miss Seibert during the extension in leave of absence granted her.

Letter dated December 15th from the Chairman of the Federal Reserve Bank of Minneapolis, advising of the reelection of Mr. Theodore Wold as member of the Federal Advisory Council from the 9th Federal Reserve District for the year 1927, the reelection of Mr. R. O. Kaufman as a director of the Helena Branch for a term of two years beginning January 1, 1927, and the reelection of Mr. R. E. Towle as Managing Director of the branch for the year 1927.

Noted.

Letter dated December 16th from the Assistant Federal Reserve Agent



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at Cleveland, advising that the Union Trust Company of Cleveland at close of business on December 24th will move their State office into the main office, discontinuing the branch.

Noted.

Letter dated December 14th from the Federal Reserve Agent at Kansas City, advising that it has been decided to discontinue the holding of unissued Federal Reserve notes at the Denver Branch and that accordingly he has ordered the transfer of all unissued notes to the head office with the exception of \$3,000,000 which will be issued to the branch before the first of the year.

Noted.

Letter dated December 15th from Honorable James A. Reed, United States Senator, requesting a list of banks that have failed in each state, the amount of their liabilities and the amount of losses as nearly as can be ascertained.

After discussion, during which the Secretary stated that it would be impossible to furnish complete and accurate information from the Board's records, he was instructed to prepare for submission to the Board a letter to Senator Reed giving whatever information may be possible.

Report of Executive Committee on memorandum dated December 14th from the Acting Comptroller of the Currency, recommending approval of an application of the Commercial National Bank of Phoenix, Arizona, for permission to reduce its capital from \$150,000 to \$100,000 on condition that no money be returned to the shareholders but that assets to the amount of the reduction be withdrawn from the capital account and transferred to the surplus account of the bank; the Committee recommending approval.

Upon motion, it was voted to approve the

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above application subject to the condition recommended by the Acting Comptroller.

Letter dated December 13th from the Chairman of the Federal Reserve Bank of Atlanta, advising that Mr. E. R. Black and Mr. W. H. Kettig, members of the board of directors of the bank, have been appointed a special committee to confer with the Board's Committee on District #6 regarding the details of the future functioning of the Havana Agency of the Federal Reserve Bank of Atlanta.

Noted.

Memorandum from Counsel dated December 13th, with regard to the matter referred to the Law Committee at the meeting on December 7th, namely, letter dated December 3rd from the Deputy Governor of the Federal Reserve Bank of Chicago, requesting approval of an application of The First National Bank of Fort Dodge, Iowa, for permission to rediscount with the Federal Reserve Bank paper originating in non-member banks.

After discussion of the condition of the bank, as set forth in a memorandum from the Board's Chief Examiner submitted by Counsel with his memorandum, the above matter was referred to Mr. Cunningham with the request that he develop additional information from the Federal Reserve Bank of Chicago.

Letter dated December 11th from the Chairman of the Federal Reserve Bank of Atlanta, submitting report by a committee of directors of the bank, with regard to voucher submitted by the Cashier of the Jacksonville Branch for expenses in connection with the shipment of currency made to the Havana Agency of that bank on April 1st.

Noted.

Memorandum dated December 16th from the Acting Director of the Divi-



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sion of Research & Statistics, recommending the permanent appointment as messenger in the Division of Harvey Robinson, who has been serving under a temporary appointment, at a salary of \$900 per annum.

Approved.

Letter dated December 16th from the Executive Director of the Stable Money Association, requesting that some member of the Federal Reserve Board attend the annual meeting of that Association to be held in St. Louis on December 30th.

After discussion, the Secretary was directed to acknowledge the above invitation and express the Board's regret that no member will be able to accept.

The Governor then presented a statement rendered by Mr. A. B. Trowbridge in the amount of \$1,500, the Board's share of that portion of his fee as consulting architect in connection with the erection of a building to house the Detroit Branch, which was payable upon approval by the Board of plans and specifications for the branch building.

Approved.

Memorandum from Counsel dated December 11th submitting applications of the National City Bank of New York for permission to establish branches in Java, Straits Settlements, India and Japan, through taking over existing branches of the International Banking Corporation of New York City; Counsel stating that in accordance with the Board's request the applications have been filed for branches only, that they are in proper form, and that he knows of no legal reason why they should not be granted.

After discussion, upon motion, the applications were approved, Mr. Cunningham voting "no", and the Secretary was directed to spread upon the minutes the following formal orders:



"THE NATIONAL CITY BANK OF NEW YORK, having on or about December 11, 1926, filed an Application with this Board for the purpose of obtaining authority to establish a Branch in Batavia, JAVA, and the said Application having been considered; and it appearing that the said Application is properly made under the laws of the United States of America and should be granted, Now, therefore, it is

"ORDERED, that the said Application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish a Branch in Batavia, JAVA."

"THE NATIONAL CITY BANK OF NEW YORK, having on or about December 11, 1926, filed an application with this Board for the purpose of obtaining authority to establish a Branch in Singapore, STRAITS SETTLEMENTS, and the said Application having been considered; and it appearing that the said Application is properly made under the laws of the United States of America and should be granted, Now, therefore, it is

"ORDERED, that the said Application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish a Branch in Singapore, STRAITS SETTLEMENTS."

"THE NATIONAL CITY BANK OF NEW YORK, having on or about December 11, 1926, filed an application with this Board for the purpose of obtaining authority to establish Branches in Bombay, Calcutta and Rangoon, INDIA, and the said Application having been considered; and it appearing that the said Application is properly made under the laws of the United States of America and should be granted, Now, therefore, it is

"ORDERED, that the said Application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish Branches in Bombay, Calcutta and Rangoon, each of which is in INDIA."

"THE NATIONAL CITY BANK OF NEW YORK, having on or about December 11, 1926, filed an application with this Board for the purpose of obtaining authority to establish Branches in Kobe, Osaka, Tokio and Yokohama, JAPAN, and the said application having been considered; and it appearing that the said application is properly made under the laws of the United States of America and should be granted, Now, therefore, it is

"ORDERED, that the said application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish Branches in Kobe, Osaka, Tokio

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and Yokohama, each of which is in JAPAN."

Memorandum from Counsel dated December 11th, submitting application of the National City Bank of New York for permission to establish branches in China, through taking over existing branches of the International Banking Corporation of New York City; Counsel stating that when the application was submitted the National City Bank addressed a letter to the Board advising that four of the branches of the International Banking Corporation issue notes which circulate as money in the localities in which they are issued and are payable in the local currency of those places at the branches where they are issued, and that it is intended that the International Banking Corporation shall continue to maintain offices at these four places for the purpose of issuing and redeeming these notes, all other banking functions to be taken over by the branches of the National City Bank in its own name. In his memorandum Counsel stated that he knows of no legal objection to the arrangement, but that it is possible that the State Department may have objection to one feature of the proposed arrangement, namely, the issue and redemption of currency in China by the International Banking Corporation. He suggested that the matter be called to the attention of the State Department with the request that the Board be advised whether or not the Department has any objection to the proposed arrangement.

After discussion, upon motion by Mr. Hamlin, it was voted to refer the above matter to the State Department in accordance with Counsel's suggestion.

Memorandum from Counsel dated December 13th, submitting an application of the National City Bank of New York for permission to establish branches in the Philippine Islands through taking over existing branches of the



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International Banking Corporation of New York City; Counsel calling attention to the fact that the Secretary of War has advised the Board that he knows of no consideration of policy which would render the granting of the application inadvisable, but that the Attorney General of the Philippines has rendered an opinion to the effect that under a Philippine law forbidding the use of the word "national" in the title of banks not organized under the Philippine National Bank Act, a branch of the National City Bank may not be established in the Philippines even though authority is obtained pursuant to Section 25 of the Federal Reserve Act; Counsel stating further that the Board may grant the permission requested notwithstanding the fact that the authority could not be exercised on account of the prohibition of local law, but that the propriety of doing so, in view of the opinion of the Attorney General of the Philippine Islands, would be extremely doubtful, especially in view of the fact that the permission thus granted by the Board might be used as a basis for mandamus proceedings to test the correctness of the Attorney General's opinion.

After discussion, upon motion by Mr. Hamlin, it was voted that the above application be laid upon the table pending receipt by the Board through its Counsel of further information regarding the opinion of the Attorney General of the Philippine Islands.

Memorandum dated December 17th from the Board's Chief Examiner, with reference to the question of an examination of the International Banking Corporation, including its foreign branches; the Chief Examiner stating that approval of certain applications filed recently by the National City Bank of New York to take over branches of the International Banking Corporation will terminate the banking operations of the corporation



in the Far East and leave them for the present with foreign branches only in England and Spain, which it is understood the National City Bank contemplates taking over at some future date. The Chief Examiner recommended that no steps be taken at this time to plan an examination of the International Banking Corporation.

After discussion, Mr. James moved approval of the recommendation of the Chief Examiner but that the Chief Examiner be directed to take up with the Board the question of examination of the International Banking Corporation when the program of the National City Bank to absorb the branches of that Corporation has progressed further.

Carried.

Memorandum dated December 14th addressed to the Committee on Salaries and Expenditures by the Chief of the Board's Division of Bank Operations, setting forth the estimated financial results of the operation of the Federal reserve banks during the year 1926 as compared with 1925.

Noted.

Report of Committee on Salaries and Expenditures dated December 10th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Boston as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Boston with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$608,000, of which about \$581,000 will be transferred to surplus account and \$27,000 paid to the Government as a franchise tax. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$3,259,822.46	
Current expenses . . . . .	<u>1,998,348.32</u>	
Current net earnings . . . . .		\$1,261,474.14
Sundry credits . . . . .		8,500.00

## Proposed deductions:

Furniture and equipment . . . . .	15,000.00	
2% reserve on bank building . . . . .	55,832.00	
10% reserve on fixed machinery & equipment . . . . .	66,215.75	
Total deductions . . . . .		137,047.75
Balance available for dividends and surplus . . . . .		1,132,926.39
Dividends paid June 30 . . . . .	261,467.47	
Estimated dividends July 1 to December 31 . . . . .	263,555.47	
Total dividends . . . . .		525,022.94
Balance available for surplus and franchise tax . . . . .		607,903.45
To be transferred to surplus:		
To increase surplus to 100% of subscribed capital . . . . .	580,780.46	
10% of remaining net earnings . . . . .	2,712.30	
Total transferred to surplus . . . . .		583,492.76
Balance to be paid as a franchise tax . . . . .		27,122.99

"According to the statements accompanying the dividend resolution, no amounts are due to the reserve bank from failed banks or banks considered to be in an unsafe condition.

"Your Committee finds that the proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. Hamlin, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 11th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of New York as of December 31, 1926, as follows:

"Your Committee has examined the statement submitted by the Federal Reserve Bank of New York with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$1,085,000.

Gross earnings . . . . .	\$10,122,296.98
Current expenses . . . . .	6,467,959.38
Current net earnings . . . . .	\$3,654,337.60
Additions to current net earnings:	
Restoration of amount carried as reserve for cancellation of lease, Equitable Bldg. . . . .	69,072.11



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Estimated income and expense, other		
real estate . . . . .	70,987.84	
Sundry credits . . . . .	<u>4,524.87</u>	
Total additions . . . . .		144,584.82
Proposed deductions:		
Furniture and equipment . . . . .	129,226.03	
2% reserve on main building . . . . .	179,526.99	
Depreciation reserve on fixed machinery and equipment, main building . . . . .	203,260.96	
2% reserve on annex building . . . . .	21,933.45	
Depreciation reserve on fixed machinery and equipment, annex building . . . . .	10,770.92	
Reserve for self-insurance fund . . . . .	59,845.18	
Additional reserve required to cover depreciation in foreign exchange on balance held abroad . . . . .	4,391.40	
Sundry debits . . . . .	<u>5,836.59</u>	
Total deductions . . . . .		614,791.52
Balance available for dividends and surplus . . . . .		<u>3,184,130.90</u>
Dividends paid June 30 . . . . .	1,024,093.00	
Estimated dividends July 1 to December 31. <u>1,074,907.00</u>		
Total dividends . . . . .		2,099,000.00
Balance to be transferred to surplus . . . . .		<u>1,085,130.90</u>

"According to the statements accompanying the dividend resolution, no amounts are due to the reserve bank from failed banks or banks considered to be in an unsafe condition.

"The amount \$59,845.18 which the bank desires to add to its reserve for self-insurance represents the income during the year on the securities in which the fund is invested, which earnings have been included with the earnings of the bank in accordance with the Board's instructions. The New York bank has been permitted to follow this practice during the past few years and your committee recommends that the charge be authorized for this year.

"Your Committee finds that the other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It is also recommended that the bank be authorized to pay the usual semi-annual dividend on December 31."

Upon motion by Mr. Platt, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 10th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Philadelphia as of December 31, 1926, as follows:



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"Your committee has examined the statement submitted by the Federal Reserve Bank of Philadelphia with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet, form 34, the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends, and other charges which the bank proposes to make against current earnings, and leave a balance estimated by the reserve bank at about \$593,000 for transfer to surplus account. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$3,580,000.00	
Current expenses . . . . .	<u>2,130,000.00</u>	
Current net earnings . . . . .		\$1,450,000.00
Sundry credits . . . . .		<u>1,130.31</u>
Proposed deductions:		
Furniture and equipment . . . . .	29,000.00	
Reserve for emergency purposes . . . . .	5,000.00	
Appraised value of equipment removed from power house . . . . .	31,150.00	
Changes to building and fixed machinery and equipment - appraised value . . . . .	58,265.26	
Difference account & miscellaneous losses . . . . .	<u>3,792.01</u>	
Total deductions . . . . .		<u>127,207.27</u>
Balance available for dividends and surplus . . . . .		<u>1,323,923.04</u>
Dividends paid June 30 . . . . .	357,480.00	
Estimated dividends July 1 to December 31 . . . . .	<u>373,120.00</u>	
Total dividends . . . . .		<u>730,600.00</u>
Balance to be transferred to surplus . . . . .		<u>593,323.04</u>

"According to the statement accompanying the dividend resolution no losses are anticipated on paper of failed banks or banks considered to be in an unsafe condition. With reference to the charges of \$31,150 and \$58,265.26 shown above, your committee wishes to state that the Philadelphia bank bought its building on Chestnut Street at a total cost of \$607,500.54 and that the cost of remodeling and repairs up to the end of 1925 was \$1,538,319.98, making a total cost of the land and building of \$2,145,820.52. Of this amount \$1,433,006.29 had been charged off to the end of 1925, leaving a book value of \$712,814.23, of which \$400,000 was assigned to land and the balance, \$312,814.23, to the building and fixed machinery and equipment. The bank now is asking authority to charge off \$89,415.26, of which \$31,150 represents the appraised value of equipment removed from the power house and \$58,265.26 the appraised value of changes to building and equipment during the year. Inasmuch as the book value of the building and equipment is now only \$312,814.23 as compared to a cost of \$1,745,820.52, your committee recommends that the charge-off of \$89,415.26 be not approved by the Board.

"The bank has also requested authority to set up an additional reserve of \$5,000 for emergency purposes. This reserve was actually set

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up on October 12 by charging Profit and Loss account with the amount in question, and the bank now asks approval of the Board for the action taken. The bank set up \$5,000 for this purpose in 1921 and if the present charge is authorized, it will bring the bank's reserve for emergency purposes, which is used for making loans to employees, etc., up to \$10,000. Your committee recommends that the Board approve the increase of \$5,000 in the reserve for emergency purposes. Your committee finds that the other proposed deductions from current net earnings are in accordance with the Board's instructions and recommends that they be approved. It is also recommended that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. Hamlin, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 11th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Cleveland as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Cleveland with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$785,000. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$4,440,480.00	
Current expenses . . . . .	<u>2,522,152.00</u>	
Current net earnings . . . . .		\$1,918,328.00
Profit and loss credit . . . . .		<u>11,000.00</u>
Proposed deductions:		
Furniture and equipment . . . . .	45,550.00	
2% reserve on Cleveland building . . . . .	92,551.17	
Depreciation reserve on Pittsburgh building . . . . .	29,829.17	
10% reserve on fixed machinery and equipment, Cleveland building . . . . .	154,134.00	
10% reserve on fixed machinery and equipment, Pittsburgh building . . . . .	<u>13,899.45</u>	
Total deductions . . . . .		<u>335,963.79</u>
Balance available for dividends and surplus . . . . .		<u>1,593,364.21</u>
Dividends paid June 30 . . . . .	401,868.00	
Estimated July 1 to December 31 . . . . .	<u>406,632.00</u>	
Total dividends . . . . .		<u>808,500.00</u>
Balance available for surplus . . . . .		<u>784,864.21</u>



"According to the statements accompanying the dividend resolution, no amounts are due to the reserve bank from failed banks and the bank does not expect to incur any loss on paper now under discount for member banks.

"The Pittsburgh building was constructed in 1910 and bought by the Federal reserve bank of Cleveland in 1920 for \$515,000. Since that time the Federal reserve bank has spent \$481,454.02 in remodeling the building and equipment. In 1921 the bank charged off an arbitrary amount of \$22,678.98 on the building and since that time has charged off 2 per cent of the cost per annum. The bank now feels that inasmuch as the building was 10 years old when it was purchased, a 2-1/2 per cent depreciation reserve should be set up each year in order that the total cost may be written off during a period of 50 years from the date of completion of the building, which is the policy followed in the case of new buildings. Up to the end of 1925 the bank had set up a reserve of \$68,251.26. If the bank had been authorized to set up a reserve of 2-1/2 per cent at the end of each year, the reserve at the end of 1926 would amount to \$98,080.43 and permission is now being asked to increase the reserve to that amount or by \$29,829.17. Your committee concurs in the Cleveland recommendation and recommends that it be approved.

Your committee finds that the other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that the bank be authorized to pay the usual semi-annual dividend on December 31."

Upon motion by Mr. Cunningham, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 11th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Richmond as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Richmond with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$355,000, of which about \$284,000 will be transferred to surplus account and \$71,000 paid to the Government as a franchise tax. Estimated earnings and proposed deductions therefrom are as follows:



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Gross earnings . . . . .	\$2,430,000.00	
Current expenses . . . . .	1,393,000.00	
Current net earnings . . . . .		\$1,037,000.00
Proposed deductions:		
Furniture and equipment . . . . .	9,500.00	
Net expense - other real estate . . . . .	4,500.00	
Charge-off on Richmond building to reduce book value to estimated replacement cost	58,087.16	
2% reserve on Richmond building for 5 years	155,005.65	
10% reserve on fixed machinery and equip- ment at Richmond . . . . .	41,040.91	
Reserve for probable losses . . . . .	50,000.00	
Total deductions . . . . .		318,133.72
Balance available for dividends, surplus & franchise tax		<u>718,866.28</u>
Dividends paid June 30 . . . . .	181,097.00	
Estimated dividends July 1 to December 31	182,903.00	
Total dividends . . . . .		364,000.00
Balance available for surplus and franchise tax . . . . .		<u>354,866.28</u>
To be transferred to surplus:		
To increase surplus to 100% of subscribed capital . . . . .	276,130.00	
10% of remaining net earnings . . . . .	7,873.63	
Total transferred to surplus . . . . .		284,003.63
Estimated balance to be paid as a franchise tax . . . . .		<u>70,862.65</u>

"The building at Richmond was completed and occupied in October 1921 and in accordance with the policy of the Board that bank would have been permitted to write down the book value of the building to the estimated replacement cost and to set aside an annual depreciation reserve of 2 per cent thereafter. The bank has not heretofore asked the Board for authority to follow the above procedure, but wishes to make the necessary adjustments in the carrying value of its building at the end of this year to conform to the practice being followed by other Federal reserve banks. The charge-off and reserves proposed by Richmond are in accordance with the Board's instructions and your recommittee recommends that they be approved.

"The statements accompanying the Richmond dividend resolution show that the bank now holds \$288,491.37 of paper of suspended banks, on which it expects to sustain a loss of \$110,300, and \$1,472,002.63 of paper of banks in an over-extended or unsafe condition, on which it estimates that it will sustain a loss of \$105,000 making a total estimated loss of \$215,300. The bank now has a reserve for probable losses of \$300,000, or \$84,700 in excess of its present anticipated losses, but asks authority to set up an additional reserve of \$50,000 as conditions this year appear to be more unfavorable than they were last year. Your committee recommends that this additional reserve be authorized by the Board.

"Your committee finds that the other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It is also recommended that the bank be authorized to pay the usual semi-annual dividends on December 31."

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Upon motion by Mr. James, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 14th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Atlanta as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Atlanta with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$923,000. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$3,073,941.37	
Current expenses . . . . .	<u>1,398,800.82</u>	
Current net earnings . . . . .		\$1,675,140.55
Sundry credits . . . . .		51,020.60
Proposed deductions:		
Furniture and equipment . . . . .	47,845.42	
2% reserve on bank building:		
Atlanta . . . . .	20,017.29	
New Orleans . . . . .	11,527.08	
Nashville . . . . .	2,875.79	
Jacksonville . . . . .	3,206.85	
10% reserve on fixed machinery and equipment:		
Atlanta . . . . .	17,345.26	
New Orleans . . . . .	15,757.97	
Nashville . . . . .	2,510.06	
Jacksonville . . . . .	2,595.61	
Birmingham . . . . .	4,284.55	
Charge-off to reduce book value of Birmingham building to estimated replacement cost . . . . .	75,505.25	
Expenses other real estate . . . . .	2,640.70	
Reserve for probable losses . . . . .	<u>300,224.22</u>	
Total deductions . . . . .		506,336.05
Balance available for dividends and surplus . . . . .		<u>1,219,825.10</u>
Dividends paid June 30 . . . . .	146,269.21	
Estimated dividends July 1 to December 31 . . . . .	<u>150,327.44</u>	
Total dividends . . . . .		296,596.65
Estimated balance for transfer to surplus . . . . .		<u>923,228.45</u>

"According to statements accompanying the dividend resolution,



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the bank holds \$723,753.67 of paper of failed banks, on which it has determined losses of \$155,224.22, and estimated losses of \$35,000. It also has \$1,524,911.55 of paper of banks considered to be in an unsafe condition, on which it estimates a loss of \$110,000, making total estimated losses of \$300,224.22. The bank asks for authority to set up a reserve of \$300,224.22 to cover these probable losses and your committee recommends that the request be approved.

"In addition to writing down the Birmingham building to its estimated replacement cost, the bank has asked authority to set up a reserve on fixed machinery and equipment, although it has not asked authority to set up an annual depreciation reserve on the building. It is our understanding that the Birmingham building is about completed and will be occupied some time during the latter part of this year. It has not been the practice of the Board to authorize a Federal reserve bank to set up a reserve until after a building has been occupied for some time and some depreciation has actually occurred. Your committee, therefore, recommends that Atlanta's request to set up a reserve at the end of this year on the fixed machinery and equipment in the Birmingham building be disallowed.

"Your committee finds that the other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. Cunningham, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 11th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Chicago as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Chicago with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$1,051,000. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$6,340,000.00	
Current expenses . . . . .	<u>3,812,000.00</u>	
Current net earnings . . . . .		\$2,528,000.00
Profit and loss credit . . . . .		12,000.00

## Proposed deductions:

Furniture and equipment . . . . .	80,000.00	
2% reserve on bank building . . . . .	90,996.72	
6-2/3% reserve on fixed machinery & equipment . . . . .	74,200.00	
Reserve for probable losses . . . . .	242,198.06	
Net expense other real estate . . . . .	9,500.00	
Differences . . . . .	1,000.00	
Total deductions . . . . .		497,894.78
Balance available for dividends and surplus . . . . .		2,042,105.22
Dividends paid June 30 . . . . .	485,954.06	
Estimated dividends July 1 to December 31 . . . . .	505,000.00	
Total dividends . . . . .		990,954.06
Balance available for surplus . . . . .		1,051,151.16

"The statements accompanying the dividend resolution of the Chicago bank indicate that the net unpaid indebtedness of failed banks amounted to \$1,792,053.92, on which the Federal reserve bank expects to sustain a loss of \$125,000. The bank also reports the indebtedness on November 30 of banks considered to be in an over-extended or unsafe condition as \$6,390,720.22, but states that at this time they can not definitely estimate losses which would accrue to the bank in the closing of any of these banks. They ask permission to set aside an additional reserve of \$242,198.06 in order to increase their present reserve to \$1,250,000. In view of the large amount of paper held for banks considered to be in an over-extended or unsafe condition, your committee recommends that this additional reserve be authorized.

"Your committee finds that other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. Cunningham, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 13th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of St. Louis as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of St. Louis with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$276,000. Estimated earn-



ings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$2,473,422.17	
Current expenses . . . . .	<u>1,420,381.57</u>	
Current net earnings . . . . .		\$1,053,040.60
Sundry credits . . . . .		<u>14,888.59</u>
Proposed deductions:		
Furniture and equipment . . . . .	55,939.41	
2% depreciation reserve on bank building:		
St. Louis . . . . .	33,615.06	
Louisville . . . . .	2,902.67	
Little Rock . . . . .	3,757.30	
10% reserve on fixed machinery & equipment:		
St. Louis . . . . .	112,603.63	
Louisville . . . . .	3,506.02	
Little Rock . . . . .	10,360.78	
Reserve for probable losses . . . . .	253,500.00	
Sundry debits . . . . .	124.69	
Total deductions . . . . .	<u>476,309.56</u>	
Balance available for dividends and surplus . . . . .		<u>591,619.63</u>
Dividends paid June 30 . . . . .	155,796.00	
Estimated dividends July 1 to December 31. . . . .	<u>160,469.49</u>	
Total dividends . . . . .		<u>316,265.49</u>
Estimated balance available for surplus . . . . .		<u>275,354.14</u>

"According to statements accompanying the dividend resolution the bank held on November 30 \$408,175.66 of paper of failed banks, on which it estimates that it will sustain a loss of \$263,500, and \$587,465 of paper of banks considered to be in an unsafe condition, on which it anticipates a loss of \$240,000. The bank, therefore, estimates that it will sustain a total loss of \$503,500 and asks permission of the Board to set up an additional reserve of \$253,500 in order to bring the total amount of its present reserve (\$250,000) up to the amount of estimated probable losses. Your Committee recommends that the additional reserve be authorized by the Board.

"The total cost of wrecking the old buildings on the St. Louis property was \$66,287.12. The bank, however, received \$11,950 in payment for salvaged material, thus making the net cost of wrecking the old buildings \$54,337.12. In 1921 the bank set aside \$100,000 as a reserve for dismantling old buildings, against which the cost of wrecking the old buildings at St. Louis, \$66,287.12 and at Louisville, \$14,625, was subsequently charged, leaving an unused balance of \$19,087.88, which was returned to profit and loss account at the end of 1925. The \$11,950 received from the sale of salvaged material should, however, have been deducted from the cost of wrecking the old buildings, thus making the transfer back to profit and loss account \$11,950 more than was actually made at the end of 1925. By handling the cost of wrecking the old buildings through the reserve rather than as a direct charge-off a misunderstanding arose regarding this matter and the Board has considered heretofore that the bank applied the \$11,950 of the amount charged off in 1921 as

a write-off on the building. The letter from Mr. Novy, Auditor at St. Louis to Mr. Martin, under date of September 7, which Mr. Martin enclosed with his request for charge-offs states, however, that this was not the case and that if the \$11,950 is not allowed to stand as a charge-off on the land, it should be adjusted through the profit and loss account. To allow it to stand as a charge-off on the land is not considered proper and therefore your committee recommends that it be adjusted through the profit and loss account at the end of this year.

"Your committee finds that other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. James, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 13th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Kansas City as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Kansas City with its request for authority to close its books and pay the semi-annual dividends, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$503,000, of which about \$50,000 will be transferred to surplus account and \$453,000 paid to the Government as a franchise tax. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$2,660,808.62	
Current expenses . . . . .	<u>1,679,042.66</u>	
Current net earnings . . . . .		\$ 981,765.96
Miscellaneous credits . . . . .		5,315.29
Proposed deductions:		
Furniture and equipment . . . . .	22,170.79	
2% reserve on bank building:		
Kansas City . . . . .	50,052.65	
Oklahoma City . . . . .	6,617.90	
Omaha . . . . .	6,390.27	
Denver . . . . .	7,250.87	



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10% reserve on fixed machinery & equipment:		
Kansas City . . . . .		77,794.06
Oklahoma City . . . . .		6,786.57
Omaha . . . . .		6,528.75
Denver . . . . .		5,046.09
Charge-off to reduce book value to replacement cost:		
Omaha . . . . .		19,658.99
Denver . . . . .		23,182.49
Total deductions . . . . .		<u>231,479.43</u>
Balance available for dividends, surplus and franchise tax		<u>755,601.82</u>
Dividends paid June 30 . . . . .	127,130.30	
Estimated dividends July 1 to December 31	<u>125,601.51</u>	
Total dividends . . . . .		<u>252,731.81</u>
Balance available for surplus and franchise tax . . . . .		<u>502,870.01</u>
Estimated transfer to surplus account . . . . .		50,287.00
Estimated franchise tax . . . . .		<u>452,583.01</u>

"According to statements accompanying the dividend resolution, amounts due to the reserve bank on November 30 from suspended banks aggregated \$544,636.69, on which the Federal Reserve bank estimates that it will sustain a loss of \$45,000. In addition, borrowings of banks considered to be in an over-extended or unsafe condition amounted to \$1,868,309.23, on which the reserve bank estimates probable losses at 10 per cent, or \$186,800. This makes a combined estimated loss of \$231,800 or of \$15,000 less than the reserve now carried by the bank, and accordingly the bank has not asked for authority to set up any additional reserve for losses.

"The Denver and Omaha buildings were completed during the year, and in accordance with the usual practice, the Kansas City bank is asking for authority to make the final charge-off for the purpose of reducing the book value of these buildings to the estimated replacement cost.

"Your committee finds the proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. Cunningham, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 13th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of Dallas as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of Dallas with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$595,788.44. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$2,125,332.48	
Current expenses . . . . .	<u>1,180,192.29</u>	
Current net earnings . . . . .		\$945,140.19
Miscellaneous credits . . . . .		<u>4,628.53</u>
Proposed deductions:		
Furniture and equipment . . . . .	5,010.17	
2% reserve on bank building:		
Dallas . . . . .	18,593.53	
El Paso . . . . .	1,845.26	
Houston . . . . .	4,696.15	
Reserve on fixed machinery & equipment:		
Dallas . . . . .	13,293.91	
El Paso . . . . .	592.03	
Houston . . . . .	2,285.55	
Reserve for probable losses . . . . .	50,000.00	
Miscellaneous charges . . . . .	<u>158.54</u>	
Total deductions . . . . .		<u>96,475.14</u>
Balance available for dividends and surplus . . . . .		<u>853,293.58</u>
Dividends paid June 30 . . . . .	128,645.00	
Estimated July 1 to December 31 . . . . .	<u>128,860.14</u>	
Total dividends . . . . .		<u>257,505.14</u>
Estimated balance to be transferred to surplus . . . . .		<u>595,788.44</u>

"According to the statements accompanying the dividend resolution the Federal reserve bank has a net unpaid indebtedness of failed banks amounting to \$152,709.94, on which it estimates a loss of \$35,854.92. The bank also has an unpaid indebtedness of member banks considered to be in an unsafe condition amounting to \$636,080. The bank has made no estimate regarding the amount of losses on the indebtedness of banks considered to be in an unsafe condition, but has asked authority to increase its present reserve of \$222,202.07 by \$50,000 to provide for losses that are not now apparent but which may possibly develop, not alone in connection with the banks listed, but also with others that have not yet liquidated their indebtedness in full. Inasmuch as the Dallas reserve bank will not pay a franchise tax in any case, your committee recommends that the additional reserve of \$50,000 be authorized.

"Your committee finds that the other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends that



the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. James, the recommendations of the Committee were approved.

Report of Committee on Salaries and Expenditures dated December 11th on the subject of closing of books and payment of the regular semi-annual dividend by the Federal Reserve Bank of San Francisco as of December 31, 1926, as follows:

"Your committee has examined the statement submitted by the Federal Reserve Bank of San Francisco with its request for authority to close its books and pay the semi-annual dividend, and finds that on the basis of the bank's daily balance sheet form 34 the estimated gross earnings will be sufficient to cover current operating expenses, accrued dividends and other charges which the bank proposes to make against current earnings and leave a balance, estimated by the reserve bank at about \$1,023,000. Estimated earnings and proposed deductions therefrom are as follows:

Gross earnings . . . . .	\$4,519,000.00	
Current expenses . . . . .	2,404,000.00	
Current net earnings . . . . .		\$2,115,000.00
Proposed deductions:		
Furniture and equipment . . . . .	89,000.00	
2% reserve on bank building . . . . .	48,000.00	
10% reserve on fixed machinery & equipment . . . . .	77,000.00	
Reserve for probable losses . . . . .	354,000.00	
Profit and loss debits . . . . .	17,000.00	
Total deductions . . . . .		585,000.00
Balance available for dividends and surplus . . . . .		1,530,000.00
Dividends paid June 30 . . . . .	250,000.00	
Estimated dividends July 1 to December 31 . . . . .	257,000.00	
Total dividends . . . . .		507,000.00
Balance available for transfer to surplus . . . . .		1,023,000.00

"According to statements accompanying the dividend resolution, the net unpaid indebtedness to the San Francisco bank of closed banks amounted to \$2,573,796.40 on November 30, against which it estimates a loss of \$1,606,231.71. The bank now has a reserve to cover losses of \$1,251,940.18, or \$354,291.53 less than anticipated losses, and it asks for the Board's authority to set up an additional reserve for this amount. Your committee recommends that the additional reserve be authorized.

"Your committee finds that the other proposed deductions from current net earnings are in accordance with the instructions of the Board and recommends that they be approved. It also recommends

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that the bank be authorized to pay the usual semi-annual dividends on December 31."

Upon motion by Mr. Cunningham, the recommendations of the Committee were approved.

The Governor announced that Mr. Mitchell, Chairman of the Board of Directors of the Federal Reserve Bank of Minneapolis would be in Washington tomorrow to confer with the Board regarding certain charge-offs in connection with the closing of books of the Minneapolis bank, and that the report of the Committee regarding that bank would be submitted later.

The Committee on Examinations then submitted a memorandum dated December 17th from the Acting Comptroller of the Currency, recommending approval of a reduction in the capital of the First National Bank of Valentine, Nebraska, from \$50,000 to \$25,000, on condition that the amount thereof be used in removing estimated losses and the impairment in capital due to a deficit in earnings, and that the remainder be used in removing doubtful assets.

Thereupon ensued a discussion of the condition of the bank and the financial responsibility of the stockholders.

Following the discussion, upon motion by Mr. Hamlin, it was voted to approve the above reduction subject to the conditions recommended by the Acting Comptroller, said approval being based upon a statement made by the Chief National Bank Examiner and set forth in the memorandum addressed to the Board by the Acting Comptroller that "the reduction in capital to remove bad and doubtful assets would render the bank sound."

REPORTS OF STANDING COMMITTEES:

Dated, December 15th, Recommending changes in stock at Federal Reserve  
17th, Banks, as set forth in the Auxiliary Minute Book  
of this date.

Approved.



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Dated, December 14th, Recommending action on applications for fiduciary powers as set forth in the Auxiliary Minute Book of this date.

Approved.

Dated, December 14th, Recommending action on an application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.

Ordered held.

Dated, December 13th, Recommending approval of the application of Mr. A. H. Giannini for permission to serve at the same time as Director and President of the Bowery and East River National Bank, New York, N.Y., as Chairman of the Board of Directors of the Commercial Exchange Bank, New York, N.Y., and as Chairman of the Board of Directors of the Italian Discount and Trust Company, New York, N.Y.

Approved.

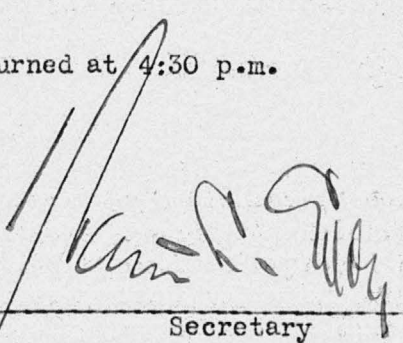
Dated, December 13th, Recommending approval of the application of Mr. James F. Cavagnaro for permission to serve at the same time as Vice President and Director of the Bowery and East River National Bank, New York, N.Y., as Director of the Italian Discount and Trust Company, New York, N.Y., and as Vice President and Director of the Commercial Exchange Bank, New York, N.Y.

Approved.

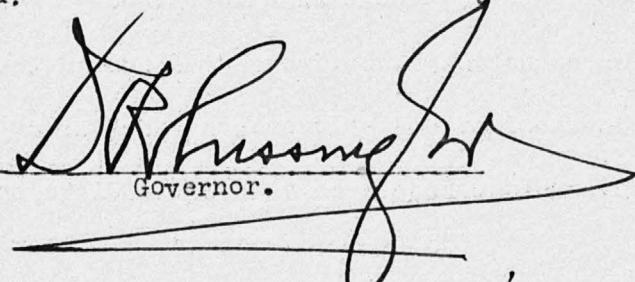
Dated, December 13th, Recommending approval of the application of Mr. George E. Hoyer for permission to serve at the same time as Vice President and Director of the Bowery and East River National Bank, New York, N.Y., as Director of the Italian Discount and Trust Company, New York, N.Y., and as Director of the Commercial Exchange Bank, New York, N.Y.

Approved.

The meeting adjourned at 4:30 p.m.

  
Secretary

Approved:

  
Governor.