A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 2, 1936, at 12:00 o'clock noon.

PRESENT:  Mr. Eccles, Chairman
          Mr. Broderick
          Mr. Szymczak
          Mr. McKee
          Mr. Ransom
          Mr. Morrison
          Mr. Bethea, Assistant Secretary
          Mr. Carpenter, Assistant Secretary

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Memorandum dated February 28, 1936, from Mr. Carpenter, Assistant Secretary, stating that Mr. Morrison had requested him to submit to the Board a recommendation that Mr. C. S. Bradley, who served as secretary to Mr. James and whose salary, at the rate of $3,000 per annum, had been continued by the Board to the close of March 1, 1936, be continued on the payroll for an additional sixty days from that date at the same salary, with the understanding that he would serve as Mr. Morrison's secretary during the period, and with the further understanding that in the event his services were not continued beyond April 30, 1936, there will be paid to the retirement system, in accordance with the action taken by the Board on January 30, 1936, an amount equal to six months' salary for the purpose of increasing the annuity to which he would be entitled under that system.

Approved unanimously.
Letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of February 10, 1936, regarding the Brownfield State Bank, Brownfield, Texas, and your recommendation that the bank's president and cashier be either cited to appear and show cause why they should not be removed from office under the provisions of section 50 of the Banking Act of 1935 or to show cause why the bank's membership should not be terminated under the provisions of section 9 of the Federal Reserve Act. You report that the bank has been a source of considerable concern to you and to the State supervisory authorities during the last three years; that your officers and executive committee have given the case a great deal of study and have considered the advisability of the alternative proceedings referred to; and that, after extended discussion of the situation, your executive committee and Governor McKinney concurred in your conclusion that this is a case in which intervention by the Board of Governors in some form of summary action is required for the protection of the bank's depositors and that the Board itself is in the best position to determine what form such action should take.

"You state that, while it is true that a great many of your examiner's criticisms and quite a number of the violations of law which he reports involve irregularities of a more or less minor character when considered separately and apart from each other and that the present condition of the bank's assets does not reflect any serious or considerable menace to its solvency, the bank's affairs under the present management are drifting in a dangerous direction, and that, unless present trends are arrested, the interests of the depositors will become seriously jeopardized.

"In the report of examination of the bank made as of November 30, 1935, by your examiner, it was reported that the State examiner who participated in the joint examination warned the officers that, unless material improvement was evident in their conduct of the bank, they would be subject to removal and in the analysis of the report of examination it is stated that the State examiner recommended that the bank be placed on the list for a special examination at the end of 60 or 90 days in order to determine whether or not a complete change in management will be necessary. One of the unsatisfactory elements in the situation which you point out is the fact that the directorate is dominated by three active officers and that, in view of the scattered stock holdings, you question whether it will be practicable to obtain a strong directorate."
"Inasmuch as it has been indicated that the State authorities may take action to strengthen the management, it is felt that, so far as practicable, you should cooperate with them in working toward the desired end. In view of the fact that you consider that the danger in the situation lies not in the present condition of the bank but in the trend of affairs under the present management, the following procedure is suggested for your consideration:

1. That you serve a definite warning on the management of the bank calling specific attention to the provisions of section 30 of the Banking Act of 1966;

2. That you advise the directors of the bank that, if it becomes necessary to remove the present officers from office under the provisions of section 30 and the subsequent management is unable or unwilling to operate the bank in accordance with the provisions of the Federal Reserve Act and the Board's regulations made pursuant thereto, the bank will be called upon to show cause why its membership in the Federal Reserve System should not be terminated; and

3. That you request a reply to your letter, signed by each director of the bank, setting forth clearly what consideration they have given to the question of providing a proper management for the bank and what steps will be taken to insure that the present unsatisfactory conditions will be corrected.

"It is contemplated that the warning referred to under paragraph numbered 1 above will be of the kind upon which proceedings under section 30 of the Banking Act of 1933 can be based if it should become necessary, and it is suggested that you confer with your counsel regarding the form of any such warning and the manner of its service on the persons involved.

"It is suggested, also, that an examination of the bank be made within a reasonable time to see what corrective steps have been taken and to what extent the assurances, if any, of the directors have been fulfilled.

"Proceedings under either section 30 or to terminate membership in the System are, of course, serious steps. It has been noted that the last three examinations for the Reserve bank have been made by the same examiner, and it is suggested, therefore, that if the procedure proposed above is followed, the next examination of the bank be made by another examiner, preferably your chief examiner or one of your senior examiners. This, of course, is not meant in any way as a reflection on or criticism of the examination made as of November 30, 1935, but it is felt that, in view of the serious consequences which
"may result, it would be well to have the examination which
may serve as the basis for the proceedings referred to made
by a senior examiner who has not participated in recent ex-
aminations of the bank.

"Please keep the Board advised as to developments in the
situation and forward copies of any letters which may be sent
to the bank regarding the matter and of the replies thereto."

Approved unanimously.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the
Federal Reserve Bank of San Francisco, reading as follows:

"Re your wire February 25 regarding First Security Bank
of Idaho, Boise, Idaho. Amount of capital and surplus required
under condition prescribed at time of consolidation of banks
into First Security Bank of Idaho was based upon and was in
accordance with the plan as submitted by the bank and was not
intended as a continuing requirement. It is expected, however,
that the bank will comply with all statutory requirements and
with sound banking principles in maintaining an adequate capi-
tal structure. In this connection it has been noted that de-
posits of $23,060,000 as reported on December 31, 1935, are
almost twice the amount of deposits at the time of consolida-
tion in 1933 and reflect an increase of almost $4,000,000 since
March 30, 1935, date of examination, whereas capital and surplus
remain at $1,500,000. It is assumed that, in view of the sub-
stantial increase in deposits, the management is giving con-
sideration to an increase in the bank's capital and surplus.
Please keep the Board advised as to developments in that con-
nection."

Approved unanimously.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve
Bank of New York, reading as follows:

"Receipt is acknowledged of Mr. Gidney's letter of Feb-
uary 5, 1936, and its inclosures, relating to the termina-
tion of the holding company affiliate relationship between
First Securities Corporation of Syracuse, Syracuse, New York,
and The North Syracuse National Bank, North Syracuse, New
York.

"It is understood that The North Syracuse National Bank
has 450 shares of common stock and 750 shares of preferred
stock outstanding; that First Securities Corporation of Syra-
cuse owns or controls 298 shares of the common stock; that the Reconstruction Finance Corporation owns all of the preferred stock; and that 383 shares of the common stock and all of the shares of preferred stock were voted at the election of directors at the bank's 1936 annual meeting of shareholders. On the basis of such facts the Board concurs in Mr. Gidney's conclusion that First Securities Corporation of Syracuse is not now a holding company affiliate of The North Syracuse National Bank.

"It is noted that although it was a holding company affiliate of The North Syracuse National Bank at the time of the bank's 1936 annual meeting of shareholders, First Securities Corporation of Syracuse voted its stock at such meeting without having obtained a voting permit. In this connection, a copy of Mr. Gidney's letter and its inclosures, together with a copy of this letter, are being furnished to the Comptroller of the Currency for his information. It does not appear that any further action by the Board is appropriate."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: 

Chairman.