

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 20, 1936, at 12:30 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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

The minutes of the meetings of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on November 18 and 19, 1936, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 18, 1936, were approved unanimously.

Telegrams dated November 19, to Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, and November 20, 1936, to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, and Mr. Martin, Chairman of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York and Kansas City banks on November 19, 1936, and by the Atlanta bank today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Letter dated November 19, 1936, to Mr. Geery, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of November 14, 1936, advising that subject to the approval of the Board of Governors of the Federal Reserve System the Board of Directors of your bank voted to elect Mr. Oliver S. Powell First Vice President of the Federal Reserve Bank of Minneapolis for the unexpired portion of the five year term which began March 1, 1936 with salary at the rate of \$10,000 per annum, such appointment and salary to be effective when approved by the Board.

"The Board today approved the appointment of Mr. Powell as First Vice President of your bank for the period stated and also approved the payment of salary at the rate of \$10,000 per annum to Mr. Powell for the remainder of the current year."

Approved unanimously.

Letter to the board of directors of "The Old Corunna State Bank", Corunna, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Old Corunna State Bank', Corunna, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other

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"of which you are requested to forward to the Commissioner of the Banking Department for the State of Michigan for his information.

"As Mr. Young has been informally advised by the Board's Division of Examinations, the bank's request that the Reconstruction Finance Corporation purchase preferred stock has been declined on the ground that the bank was in a liquid condition, and that in the circumstances, the Corporation would not be justified in purchasing preferred stock merely to supply capital for the purpose of increasing the ratio of capital to deposits where public funds of a more or less temporary nature represent a substantial amount of the bank's deposits. Accordingly, the Board has not prescribed a condition of membership requiring the bank to complete its program for the sale of preferred stock to the Reconstruction Finance Corporation.

"In his letter dated November 2, 1936, Mr. Young suggested that it might be advisable to prescribe a condition of membership which would prohibit the bank from paying dividends on common stock until such time as the ratio of capital funds to deposit liability is approximately one to ten, and stated that it was his understanding that such a condition would meet with the approval of the Federal Deposit Insurance Corporation.

"According to the report of examination as of September 28, 1936, net sound capital, including appreciation in securities, amounted to approximately 9.5 per cent of the total deposits. It is understood that the bank's surplus and undivided profits amounting to \$28,400 have been accumulated out of earnings since reorganization and that no dividends have been paid during that time. In view of the sound asset condition and liquid position of the bank as reflected by the report of examination, the favorable information submitted regarding the management, and its demonstrated conservative policy regarding the payment of dividends, it would seem that there is no necessity to prescribe a condition of membership prohibiting or restricting the payment of dividends. It is suggested, however, that the special attention of the bank be called to the provisions of standard condition of membership numbered 2 regarding the maintenance of adequate capital and that it be pointed out to the bank that under such condition, unless and until the bank's capital is increased from other sources, it will be expected that, in accordance with the bank's conservative policy, its earnings will be devoted to that end. Mr. Pitman, of the Examining Division of the Federal Deposit Insurance Corporation, has stated that such a procedure would be acceptable to that Corporation.

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"In the report of examination as of September 10, 1936, the examiner calls the bank's attention to the features of its time certificate of deposit form which are inconsistent with the provisions of the Board's Regulation Q and to the savings accounts which do not conform to the definition of savings deposits as contained in that Regulation, and it is assumed that both types of deposits will be brought into conformity with the applicable provisions of Regulation Q.

"On page 12-C of the report the examiner includes a schedule which shows that certain securities are carried by the bank in excess of their call prices. The aggregate excess carrying value is, however, relatively small and is apparently reflected in the bond premium account. The bond premium account is reported as being properly amortized, but the regulation of the Comptroller of the Currency issued pursuant to Section 5136 of the Revised Statutes provides that the carrying value, including premium, of an investment security shall at no intervening date be in excess of the amount at which the obligor may legally redeem such security. It is suggested, therefore, that you call this matter to the attention of the management with request that prior to membership the necessary adjustments be made in the carrying value of such securities.

"It is understood that the photostat copies of the articles of association and the amendments thereto submitted with the bank's application were made by you directly from a file which was furnished to your bank by the Michigan Banking Department, and that such photostat copies are complete copies of all such documents."

Letter to Honorable Harry F. Byrd, Chairman, Select Committee on Investigation of Executive Agencies of the Government, United States Senate, submitting certain data with respect to information furnished to the public by the Board of Governors of the Federal Reserve System.

Approved unanimously.

Thereupon the meeting adjourned.

Chester B. Sprague
Secretary.

Approved:

W. H. C. ...

Chairman.