

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 26, 1937, at 11:00 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

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 meeting of the Board of Governors of the Federal Reserve System held on October 25, 1937, were approved unanimously.

Telegram to Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated October 22, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated October 18 from Mr. Attebery, First Vice President of the Federal Reserve Bank of St. Louis, which requested approval by the Board of changes in the personnel classification plan of the Louisville Branch of the Federal

10/26/37

-2-

Reserve Bank of St. Louis to provide for changes in the maximum salaries for the positions of "Head of Department" and "Assistant Head of Department", in the R.F.C. Collateral and Collection Department, and for the creation of the new positions of "Note Custodian" and "Supervisor of Remittances and Accounting", in the R.F.C. Collateral and Collection Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Letter to the "Peoples Bank and Trust Company", Seattle, Washington, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made on behalf of the national bank into which the Peoples Bank and Trust Company, Seattle, Washington, is to be converted, and grants such national bank authority, effective if and when the Peoples Bank and Trust Company is converted into a national banking association and is authorized by the Comptroller of the Currency to commence business as Peoples National Bank of Washington in Seattle to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Washington, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"After the conversion of the Peoples Bank and Trust Company into Peoples National Bank of Washington in Seattle becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national

10/26/37

-3-

"bank adopt a resolution ratifying your application for permission to exercise trust powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of San Francisco to be forwarded to the Board of Governors of the Federal Reserve System for its records. When a copy of such resolution has been received by the Board, a formal certificate covering your authority to exercise trust powers will be sent to you."

Approved unanimously, together with a telegram to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Fiduciary application 'Peoples Bank and Trust Company', Seattle, Washington, has been approved by Board, effective upon completion of conversion. Usual letter to applicant bank being mailed today."

Letter to "The National Metals Bank of Hancock", Hancock, Michigan, reading as follows:

"This refers to the resolution adopted on May 26, 1937, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise the trust powers which have heretofore been granted to it by the Federal Reserve Board, now known as the Board of Governors of the Federal Reserve System.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto,

10/26/37

-4-

"(2) shall be entitled to have returned to it, any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"As you know, there have been admitted to membership from your district during the recent past a number of reorganized banks whose earnings are pledged for the benefit of waiving depositors for specified periods covered in the reorganization agreements. Each of these banks is subject to a condition of membership requiring it to establish and to maintain during such periods a 'Trustees' profit account which should be separate and apart from the undivided profits account and should reflect clearly at all times the net amount of earnings due to the trustees or agents for the waiving depositors.

"There is some lack of uniformity among the banks in the manner of treating undivided profits in condition reports and published statements, and a question arises as to whether the practice of some of the banks may not be inconsistent with the condition of membership. It is understood that in some of the banks subject to the condition the earnings are no longer pledged by reason of the expiration of the agreements, but according to the Board's records the agreements are still in effect in the following cases. The banks are grouped according to the manner of treating undivided profits in condition reports and published statements, and the date shown after the name of each bank is the date to which the earnings are pledged under the reorganization agreement.

Dansard State Bank, Monroe, Michigan (7-22-38)
American State Savings Bank, Lansing, Michigan (4-29-38)

"There is apparently no question as to the correctness of the manner in which these banks treat their earnings, in so far as the conditions of membership applicable to the institutions are concerned. Transfers are made periodically

10/26/37

-5-

"From undivided profits to the trusts for waiving depositors and in condition reports and published statements any remaining undivided profits are either excluded from capital accounts and shown in other liabilities as being amounts due the trusts, or are included in capital accounts with notations to the effect that the amounts are for the benefit of the waiving depositors. In other words, the condition reports and published statements properly show that earnings on the dates of the statements do not accrue to the banks.

Central State Bank, Muscatine, Iowa (Earnings are pledged until the sum of \$125,000 has been paid to the liquidating agents of two predecessor banks).

"Transfers of specified sums have been made periodically to the segregated assets held for the benefit of the depositors of the predecessor banks, a total of \$75,000 having been transferred up to June 30, 1937, but in condition reports remaining balance in undivided profits is included in the bank's capital account and with no notation to indicate that the earnings are for the benefit of the old bank's depositors.

The Mount Clemens Savings Bank, Mount Clemens,
Michigan (11-15-38)

Coopersville State Bank, Coopersville, Michigan
(12-7-37)

The Home State Bank of Lawrence, Lawrence, Michigan
(1-3-38)

The Peoples State Bank of Holland, Holland, Michigan
(6-28-38)

"Apparently these banks transfer to the trusts for waiving depositors the entire net profits on hand at the end of earning and dividend periods, June 30 and December 31, but in condition reports and published statements in the interim the net profits are included in the banks' capital accounts and with no qualifying notations to the effect that the amounts are for the benefit of waiving depositors.

"The condition of membership in question contemplates that in all condition reports and published statements the banks involved should not overstate their capital accounts by including therein earnings which under reorganization agreements are to accrue to waiving depositors; unless, of course, qualifying notations are made in the reports to the effect that such earnings are for the benefit of the waiving depositors. Accordingly, it is requested that the Central State Bank, Muscatine, Iowa, and the four banks listed in the

10/26/37

-6-

"last group be informed of the manner in which the earnings should be shown in all future reports of condition and published statements. If there are any other member banks in your district reorganized under a similar plan which are including pledged earnings in their capital accounts in condition reports and published statements, their attention should likewise be called to the proper manner in which such earnings should be shown.

"In this connection, it has been noted that in most of the reports of examinations of those banks whose earnings are pledged, the examiners have included the net undivided profits in the banks' capital accounts. It is requested that in the future the reports of all such banks, whether or not subject to the condition, be prepared in such a manner as will reflect the true condition of the capital accounts."

Approved unanimously.

Memorandum dated October 16, 1937, from Mr. Morrill submitting a memorandum dated October 12 from Mr. Koppang, which had been prepared in accordance with the request made at the meeting of the Board on August 23, 1937, that an investigation be made as to the types of insurance that it would be desirable to carry on the Board's new building and in connection with its operation. Mr. Morrill's memorandum recommended:

- (1) That no general fire insurance on either the building or contents be provided at this time but that the Personnel Committee be authorized to purchase, if an investigation shows it to be advisable, a Fine Arts policy on the contents of such of the rooms and in such amounts as the Committee may decide; such policy to insure not only against fire but also against water damage, theft and malicious destruction.
- (2) That elevator and public liability coverage each in the amount of \$50,000/\$200,000 limitation be provided.
- (3) That such machinery coverage be obtained as in the opinion of the Board's Building Manager should be

10/26/37

-7-

covered, subject, of course, to the approval of the Personnel Committee.

- (4) That no flood insurance be carried but that, if possible, protection against water damage of the machinery in the basement be included in the policy described next above.
- (5) That coverage against riot, civil commotion, malicious mischief and vandalism and insurance against other such miscellaneous risks and in such amounts be obtained as the Personnel Committee may deem advisable.

Approved unanimously.

Thereupon the meeting adjourned.

Chrestin Morrie
Secretary.

Approved:

W. S. Seales
Chairman.