

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 4, 1938, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 March 3, 1938, were approved unanimously.

Telegrams to Messrs. Kimball and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of New York on March 3, 1938, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Charles A. Strahorn, Assistant Federal Reserve Examiner, reading as follows:

"As requested in your letter of February 28, 1938, the Board of Governors of the Federal Reserve System

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"accepts your resignation, effective at the close of March 15, 1938, as Assistant Federal Reserve Examiner with its Division of Examinations.

"The Board takes this action with sincere regret and wishes you success in the position you have accepted with the Federal Deposit Insurance Corporation."

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of February 28, 1938, the Board approves the appointment as examiner of Clarence T. Laibly, at present an assistant examiner for your bank.

"Please advise the Board's Division of Examinations of the date the appointment becomes effective and whether the contemplated adjustment is made in Mr. Laibly's salary."

Approved unanimously.

Letter to the board of directors of the "Kaspar-American State Bank", Chicago, Illinois, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following additional conditions, 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. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate net depreciation of \$1,071.89 in securities and estimated losses of \$112.50 in other assets, all as shown in the report of examination of such bank as of February 3, 1938, made by an examiner for the Federal Reserve Bank of Chicago.

"5. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the

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"bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding, a legend reading substantially as follows:

'Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Certificates of Beneficial Interest issued by the bank to depositors who waived the payment of a part of their deposits in connection with the reorganization of the bank effective in 1935 pursuant to a Depositors Agreement, a copy of which is on file with the Kaspar-American State Bank, must be paid.'

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition, numbered 5, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Deferred Certificates to the rights of stockholders.)"

The letter also contained the following special comments:

"It has been noted that at the time of examination for membership the only fiduciary capacity in which the bank was acting as trustee under two trusts and these trusts are to be closed at an early date after which the bank will discontinue the exercise of trust powers. In view of such circumstances, the application has been approved on the same basis as if the bank were not exercising trust powers. Should the bank desire in the future to exercise its trust powers other than to the extent necessary in connection

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"with those trusteeships now being administered, application for permission to do so should be made to the Board in accordance with the provisions of condition of membership numbered 1."

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 'Kaspar-American State Bank', Chicago, Illinois, 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 of which you are requested to forward to the Auditor of Public Accounts of the State of Illinois for his information.

"It will be noted that the elimination of depreciation in defaulted securities and the establishment of a specific reserve for depreciation in group 2 securities as recommended by your office has not been required, but that condition of membership numbered 4 includes, in addition to the estimated losses in other assets as shown in the report of examination for membership, the amount of net depreciation in securities. Such requirement is in accordance with the policy outlined in the Board's letter of December 9, 1933 (X-7705).

"The report of examination for membership lists two savings accounts which do not conform to the definition of savings deposits as contained in the Board's regulations and it is assumed, of course, that, if the bank is admitted to membership, such accounts will be brought into conformity with the provisions of the Board's regulations."

Letter to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of January 26, transmitting the report of examination of the 'Citizens Bank & Trust Company', Carthage, Tennessee, as of January 5, 1938,

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"together with the analysis of the report, and commenting upon the question of the adequacy of the institution's capital structure in relation to its deposit liabilities. You state that you have carefully considered the condition of the bank with particular reference to the adequacy of its capital structure and have reached the conclusion that unless the Board should take a contrary view of the matter, you will not take up with the bank the question of increasing its capital stock. You state also that this conclusion was reached after discussion of the matter with President Newton and members of the examining staff, and was due in large extent to the extremely liquid condition of the bank, the excellence of its management, and the progress which is being made.

"When examined for membership as of May 2, 1933, the institution had capital stock of \$25,000, surplus of \$5,000, and undivided profits of \$100, as compared with total deposits of \$154,300. The report of the recent examination shows capital and surplus of the same amounts as shown in the membership examination, and undivided profits of \$19,000, or a total capital structure of \$49,000 as compared with deposits of \$634,300. Estimated losses and doubtful assets classified in the current report of examination, however, amounted to a total of only \$130 and net appreciation in securities amounted to \$5,100. As you point out, the bank is reported to be in good financial condition, and the management is described as excellent. It has no investment in banking house or other real estate, the report reflects no potential other real estate, and furniture and fixtures are carried at only \$3,800. A liquid position is maintained, earnings have been substantial, and, as indicated by the accumulation in the undivided profits account, the earnings have been conserved. It has been noted, also, that the bank plans to declare a 100% stock dividend at the end of the year.

"The Board accepts your conclusions as to the situation at this time. It is assumed, however, that the capital position of the bank will be watched with especial consideration to the trend of deposits and earnings."

Approved unanimously.

Letter to Honorable Wayne C. Taylor, Assistant Secretary of the Treasury, reading as follows:

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"This refers to your letter of January 14, in which you advised that you would be glad to meet with Mr. M. J. Fleming, Chairman of the Presidents' Conference Committee on Reimbursable Expenses, and with Mr. Smead, of the Board's organization, at their mutual convenience for the purpose of discussing the question of reimbursing the Federal Reserve banks after December 31, 1937, for their expenses in redeeming adjusted service bonds.

"On the morning of Tuesday, March 1, the Presidents' Conference Committee, consisting of Presidents McKinney, Martin and Leach, and Mr. Zurlinden, First Vice President of the Federal Reserve Bank of Cleveland, representing Mr. Fleming, Chairman of the Committee, and Mr. Smead met with Mr. Broughton and Mr. Kilby of your office and reviewed this question.

"Mr. Kilby pointed out that while it had not seemed practicable to obtain an appropriation from Congress at this time for the purpose of reimbursing the Federal Reserve banks for their expenses in redeeming adjusted service bonds during the remainder of the fiscal year 1938 and for the fiscal year 1939, he believes the Department has sufficient funds to reimburse the Federal Reserve banks for such expenses incurred during the first six months of the calendar year 1938. It was further brought out in the conference that if such expenditures should continue to be relatively large after July 1, 1938, it would be possible to ask Congress in January 1939 for a deficiency appropriation to cover such expenses.

"While the Presidents' Conference Committee feels that the Federal Reserve banks should be reimbursed for expenses incurred in redeeming adjusted service bonds, particularly so long as the expenses amount to such substantial sums as they have in the recent past, the members of the Committee expressed a willingness to go along with the program outlined to them by Messrs. Broughton and Kilby with the understanding, of course, that should the expenses during the last half of this year continue at or near the present level they would have the privilege of taking up with the Treasury the advisability of asking for a deficiency appropriation to take care of such expenses."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. S. ...
Chairman.