

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, April 2, 1938, at 12:30 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper

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 April 1, 1938, were approved unanimously.

Letter to the board of directors of the "Jackson State Savings Bank", Maquoketa, Iowa, 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. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Until its capital structure has been increased to an amount satisfactory to the Federal Reserve Bank of Chicago, such bank shall not pay any dividends on its common stock except with the permission of the Federal Reserve bank.

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- "6. Prior to admission to membership, the capital stock of such bank shall have been increased by not less than \$25,000 through the introduction of new funds.
- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,809.55 as shown in the report of the credit investigation as of February 17, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"After the sale of \$25,000 additional capital stock, as will be required under condition of membership numbered 6, the bank's capital structure will of course still be out of proportion to its deposit liabilities. The application for membership has been approved without requiring a greater increase in capital at this time only because the bank is reported to be in good asset condition, the low capital ratio is due principally to the recent assumption of the deposit liabilities of another bank, and, based on the bank's earning record and the management's estimate as to future earnings, it appears that through earnings the desired strengthening of the capital may be accomplished within a reasonable time. Condition numbered 5 will require the conservation of earnings, but it is understood that this will be in keeping with the policy to which the bank is already committed. In this connection, however, attention is called to the fact that condition of membership numbered 2 is a continuing condition and is not superseded by conditions 5 and 6, and unless satisfactory progress can be made in strengthening the capital from earnings, the further introduction of additional funds from outside sources may be required under the continuing condition."

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 'Jackson State Savings Bank', Maquoketa, Iowa, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed

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"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 Superintendent of Banking of the State of Iowa for his information.

"The Board has approved the application of this institution for membership in the System on the understanding, which has been gained from communications with Mr. Young, that the Reserve bank is satisfied that Mr. L. G. Fuller, who recently acquired control of the bank and whose practices in another bank were rather severely criticized, is capable of operating a sound institution and that under his direction no apprehension need be felt as to the future welfare of the applicant. It is assumed, of course, that close touch will be kept with the bank with the view to seeing that sound management is maintained."

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to Mr. Hill's letter of March 26, 1938, and previous correspondence, regarding the proposed merger of the West Jersey Trust Company with the 'Camden Safe Deposit and Trust Company', both of Camden, New Jersey.

"The proposed merger, which is made possible through the financial assistance of the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation, will materially improve the condition of the member bank. The Board, therefore, in accordance with the recommendation of your board of directors, will interpose no objection, under the general condition of membership numbered three to which the Camden Safe Deposit and Trust Company is subject, to the transaction. This position is taken upon the understanding that after the merger the member bank will have unimpaired capital surplus and undivided profits of not less than \$3,500,000 and that the assets retained by the merged institution will be satisfactory to the Federal Reserve Bank of Philadelphia both as to quality and book value. It is also understood that the proposed merger has been approved by the Commissioner of Banking and Insurance of the State of New Jersey, and that your counsel will pass upon the legal aspects of the transaction."

Approved unanimously.

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

"This refers to your letter of March 21, 1938, transmitting a copy of the report of examination of 'The Bank of Rainelle', Rainelle, West Virginia, as of March 1, 1938, and raising a question as to the position which you should take in this, and perhaps in the cases of other State member banks, with respect to requests for elimination of depreciation in securities.

"In transmitting the report of examination you state that it reflects a sound condition with the exception that a substantial amount (20%) of the investment portfolio is represented by securities in the lower grades and that the total depreciation in investment account on date of examination amounted to \$14,230, of which \$12,740 was in securities below the four highest grades. You report that the bank's purchases of investment securities have been confined to issues rated as eligible but that since purchase ratings of some of them have been lowered. Mention was also made of the substantial investment (\$67,000) in railroad issues, and it has been noted that depreciation in such issues amounted to \$13,900 on date of examination.

"With respect to depreciation in securities, you state that it has been a uniform practice, following the views expressed in the Board's letter of April 4, 1934, X-7848-a, to request State member banks to charge off or otherwise eliminate all depreciation in securities below the four highest grades; that it is possible for The Bank of Rainelle to eliminate all of the depreciation in securities by using all undivided profits and reducing its surplus; but that the report reflects no depreciation in defaulted issues and that if the bank were a national bank, it would not be required to charge off any depreciation in securities. You suggest that in some cases a modification of your usual practice with respect to requests for elimination of depreciation in securities may be warranted and request the Board's reaction to your suggestion.

"The Board has under consideration the question of the method of treating depreciation in securities and, pending advice as to the conclusions which may be reached as a result of such consideration, will interpose no objection to your suggestion that you modify in individual cases which

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"seem to warrant such action your customary practice with respect to requests for elimination of depreciation in securities. In this connection it has been noted that you are contemplating requesting The Bank of Rainelle to charge off part of the depreciation in securities below the four highest grades and to devote a large part of the earnings to the reduction of the remaining depreciation until provision has been made for all depreciation in lower grade securities."

Approved unanimously.

Telegram to Mr. Sihler, Assistant Vice President of the Federal Reserve Bank of Chicago, stating that an individual as well as a group of individuals may be a "regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members", and that, on the basis of Mr. Sihler's telegram indicating that the relevant functions are now properly vested in an assistant secretary of the Exchange, he is an appropriate "committee" within the meaning of Regulation T for extensions of time under sections 3(f) and 4(e) of the regulation.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Sihler
Chairman.