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A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 11, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis  
Mr. Draper

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

Consideration was given to each of the matters herein-  
after 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 May 7, 1938, were approved  
unanimously.

Memorandum dated May 9, 1938, from Mr. Morrill, recommend-  
ing the appointment of Mrs. Lillie Jane Green as a relief char-  
woman in the Board's building, with salary at the rate of 50¢ per  
hour, effective as of the date upon which she enters upon the  
performance of her duties after having passed satisfactorily the  
usual physical examination.

Approved unanimously.

Letter dated May 9, 1938, to Mr. Fleming, President of  
the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in  
your letter of May 5, the Board approves the desig-  
nations of the following employees as assistant  
examiners:

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"Main Office

Joseph Miller  
Albert Nuske  
Frank Carrell  
George Hancox  
Raymond Beeke

Pittsburgh Branch

Samuel G. Campbell  
Walter E. Hein

"These employees are being designated as assistant examiners in order that they may lend clerical assistance to your regular examiners, and the approval of such designations is with the understanding that they will not be transferred permanently to examining work without the Board's approval.

"The names of those listed in your letter as having severed their connections with the Reserve bank have been removed from the list of employees whose designations as assistant examiners have been approved by the Board."

Approved unanimously.

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

"Receipt is acknowledged of your letters of May 5 and 6, 1938, requesting approval of the employment of the firm of Mayer, Meyer, Austrian & Platt and Mr. Adelbert Brown as special counsel for the purpose of contesting part of the taxes on the building of the Federal Reserve Bank of Chicago for the year 1937.

"The Board has already approved their employment for the same purpose in connection with the taxes for the three preceding years, and it approves their employment in connection with the taxes for the year 1937, upon the basis outlined in your letters, namely, a contingent fee of not less than 10 per cent nor more than 15 per cent of the saving effected, plus certain special expenses, with the understanding that within these limitations the total fee will depend upon the work involved and the number of parties who are joined in the action."

Approved unanimously.

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Letter to the board of directors of "The Citizens State Bank", Hartford City, Indiana, 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. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$8,313.46 as shown in the report of examination of such bank as of April 4, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"It has been noted that the bank has outstanding capital stock and debentures aggregating \$200,600, which is in excess of the figure at which the capital accounts are shown on the books of the bank. In this connection the Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause its sound assets to equal at least the amount of its liabilities to depositors and other creditors and the par value of its outstanding capital stock and debentures. Such adjustments may be effected through conservation of earnings of the bank, through reduction of its outstanding common capital stock, if and when such reduction may be accomplished under the applicable provisions of State law, or through such other means as may be within the power of the bank.

"While under Indiana laws the bank is authorized to exercise full trust powers, it is reported that the bank has engaged in such activities only to a

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"limited extent, and that it has not equipped itself for handling trust business generally. At the time of the examination for membership the only fiduciary capacity in which the bank was acting was in connection with two small court trusts and it is understood that the bank has no desire to extend the scope of its trust activities. 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 with the two court trusts 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 Citizens State Bank, Hartford City, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana, for his information.

"It will be noted that the Board has not prescribed the condition recommended by your committee to require the transfer of not less than \$10,400 from undivided profits to the common capital account. It is assumed that the basis for recommending that such a requirement be made of the bank was in order that the bank's books would show common stock and debentures held by the Reconstruction Finance Corporation in a total amount of \$100,000, the minimum capital required for this bank to be eligible for membership. However, even though such a transfer were made, the bank would not be eligible for membership, since the sound value of its assets would still be less than its total liabilities including common capital stock and capital debentures outstanding, unless the Board, under the



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"discretionary power vested in it by Section 345 of the Banking Act of 1935, deems the bank's capital to be unimpaired. By approving the application for membership, the Board, of course, deems the bank's capital to be unimpaired within the meaning of that section, and since the amount of common stock outstanding is \$100,000, an increase in the common capital account shown by the bank's books is not considered necessary.

"It has been noted further that your counsel has advised that the bank's charter will expire on November 6, 1938. It is understood that this date will mark the expiration of a twenty-year period after the date of the bank's organization. In view of the requirement of the Constitution of Indiana that a bank shall cease all banking operations within twenty years from the time of its organization and promptly thereafter close its business, it is assumed that the applicant bank will take such corporate action as, in the judgment of the appropriate State authorities, may be necessary to eliminate any legal question regarding its right to conduct banking operations after November 6, 1938; but it is suggested that this matter be called to the bank's attention. Your counsel has stated also that the elimination of such constitutional requirement may be accomplished this fall. However, in the case of the St. Joseph Valley Bank, Elkhart, Indiana, your counsel previously stated that it would not be possible to eliminate this requirement until the year 1940. In the circumstances, it will be appreciated if, after a further review by your counsel, you will advise as to his conclusions regarding this matter. In any event, if the applicant bank plans to organize a new bank to take over its business, you are, of course, aware that such new bank will not, by virtue of its succession to the business of the applicant, automatically become a member bank, and that it will be necessary for the new bank to file an application if it desires to obtain membership in the System. In this connection, your attention is invited to the Board's letter of January 6, 1931 (X-6789).

"It has also been observed that the bank's Articles of Association provide that the number of its directors 'shall be seven', and that section 18-509 of Burns Indiana Statutes (1933) requires the directorate of a bank to be 'not less than five (5) nor more than the maximum number fixed in the

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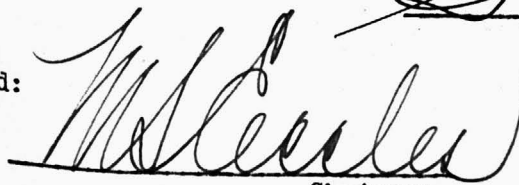
"articles of incorporation'. The report of examination made in connection with the bank's application shows that the bank at that time had ten directors. The State banking authorities have advised that the papers submitted with the application included copies of all the presently effective amendments to such Articles of Association and such papers did not include a copy of an amendment authorizing an increase in the number of the directors to ten. Accordingly, it is requested that your counsel, prior to the admission of the bank to membership, obtain satisfactory evidence that the bank has reduced the number of its directors to seven or has taken such action as may be necessary to authorize the increase to the present number. Moreover, prior to admission to membership, your counsel should be satisfied that the bank's application and the acceptance of the conditions of membership prescribed for it are based upon validly adopted resolutions of the bank's board of directors.

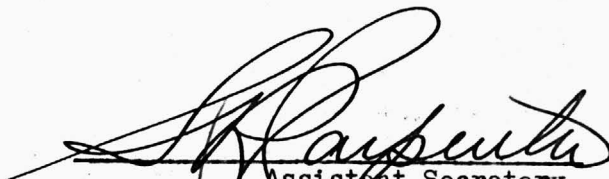
"You are familiar, of course, with the fact that stock of the Federal Reserve bank should be issued to the applicant on the basis of capital of \$179,600, the total of the common stock outstanding and the capital debentures sold to the Reconstruction Finance Corporation.

"It has been noted from the presentation memorandum accompanying the application that, in the event membership is completed, the bank will be requested to eliminate, in an orderly manner, the excessive loans listed in the report, and also to take some action with respect to the disqualification of one of the directors resulting from his hypothecation of a portion of his qualifying shares of stock."

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Assistant Secretary.