

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 31, 1938, at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczak
 Mr. McKee
 Mr. Davis
 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 May 27, 1938, were approved unanimously.

Letter to the board of directors of the "Zapp State Bank", St. Cloud, Minnesota, stating that, subject to 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 Minneapolis:

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

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

"The Board of Governors of the Federal Reserve System

5/31/38

-2-

"approves the application of the 'Zapp State Bank', St. Cloud, Minnesota, 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 Commissioner of Banks of the State of Minnesota for his information.

"In view of the nominal amount of estimated losses as shown in the report of examination, the customary condition of membership regarding the elimination of estimated losses has not been prescribed."

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

"This refers to your letter of May 17, 1938, and previous correspondence regarding the question whether the purchase by The First-American Bank & Trust Company, Middletown, Ohio, of \$19,000 par value of German Government defaulted bonds constituted a violation of section 5136 of the Revised Statutes.

"You state that counsel for the Federal Reserve Bank of Cleveland has considered this transaction in the light of the Board's letter of June 8, 1936 (X-9611) and is of the opinion that the transaction constituted a violation of section 5136 of the Revised Statutes. We have considered the question and, on the basis of such informal advice as we have been able to obtain regarding the bonds in question, we find no reason to differ from the conclusion of your counsel that the purchase in question was not covered by the exception stated in the ruling of the Comptroller of the Currency inclosed with the Board's letter X-9611.

"However, in view of the unusual circumstances involved in this case and in view of the fact that the member bank apparently acted in good faith in acquiring the German International 5-1/2's of 1965, it is our view that no objection need be made to the continued holding of these bonds.

"It will be appreciated if you will advise the member bank in accordance with the above."

Approved unanimously.

5/31/38

-3-

Thereupon the meeting adjourned.

Robert Morill
Secretary.

Approved:

W. S. ...
Chairman.