

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 18, 1938, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

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

"Pursuant to the recommendation contained in your letter of October 11, the Board extends to not later than December 31, 1938 the time within which 'The Wyandotte Savings Bank', Wyandotte, Michigan, may make the eliminations required by condition of membership numbered 8. The extension is granted so that the bank may make the necessary charge-offs in connection with a capital adjustment program now in process and which is expected to be completed by December 1, or not later than December 15, and it has been noted that at the time of such adjustment charge-offs in excess of the amount required by the condition are to be made."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"It is observed from the letter of President Mindnich of the Federal Trust Company, Newark, New Jersey, to Mr. Dillistin dated September 20, 1938, that the institution's directors have given considerable thought to an increase

10/18/38

-2-

"in its capital through an issue of preferred stock should a favorable opportunity be presented and that in his letter of September 27, 1938, to Mr. Mindnich, Mr. Dillistin has asked to be advised of any further developments in this respect.

"The inadequacy of the capital structure of the trust company has been the subject of unfavorable comment in the reports of examination in recent years. The report of the examination made as of May 23, 1938, reflected an investment in bank premises and furniture and fixtures of \$3,290,600, other real estate of \$674,600, potential other real estate of \$201,800 in realty loans, all aggregating \$4,167,000, as compared with book capital accounts of \$2,808,600, and deposits of \$32,045,800. The examiner expressed the opinion that the institution should materially strengthen its capital and stated that the need for substantial additional capital funds appears imperative in view of the excessive amount of fixed assets which it holds, the definite and important place of the trust company in the local banking field and its responsibilities to the community in which it is located.

"You will recall that the trust company declined a commitment made by the Reconstruction Finance Corporation in August, 1934, to purchase \$1,000,000 preferred stock for the reasons set forth in its letter to Mr. Case dated October 11, 1934. Those reasons related principally to objections of the trust company to the so-called management provision imposed by the Reconstruction Finance Corporation as a part of its commitment. At that time it was stated that the matter of increasing the trust company's capital was receiving consideration. However, it appears that no additional capital has been introduced although on November 15, 1934, the trust company's capital stock was reduced from \$4,056,250 to \$1,622,500, at which it now stands, and eliminations of \$5,156,900 were effected. It is noted that dividends aggregating \$466,000 have been paid in the years 1933-1937, inclusive, despite the fact that only the year 1936 reflected a net profit before dividends.

"It will be appreciated if your office will continue its efforts to obtain the introduction of additional capital funds and keep the Board advised of developments in this connection."

Approved unanimously.

10/18/38

-3-

Letter to Mr. C. W. Fenninger, Chairman, Committee on Common Trust Funds, Trust Division of the American Bankers Association, Philadelphia, Pennsylvania, reading as follows:

"This is to acknowledge your letter of October 7, 1938, advising that your Committee on Common Trust Funds is not willing to recommend the adoption of the suggestion for an amendment to the Board's Regulation F to permit the operation of Common Trust Funds composed principally of mortgages.

"The Board has not yet received replies from all of the sources from which it requested comments on the proposed amendment to Regulation F. However, some of the replies which have been received contain recommendations that the proposed amendment be adopted and others contain recommendations that the proposed amendment not be adopted. In view of these facts and also in view of the importance of the decision which the Board will have to make as to whether or not it will make the proposed amendment, it will be very helpful to the Board if your Committee will furnish it with a full statement of the reasons for its conclusion in the matter.

"In view of the fact that the members of your Committee are located in different parts of the country, it can be readily understood that the preparation of such a statement may require some time, and you and the members of your Committee may wish to discuss the proposal with other representatives of the Trust Division of the American Bankers Association before submitting such a statement. Of course, if prior to the submission of such a statement your Committee should desire to discuss the proposal with representatives of the Board, a conference can be arranged to suit your convenience."

Approved unanimously.

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

"Reference is made to your letter of October 3, 1938,

10/18/38

-4-

"with inclosures, referring to the inquiry of the Board's Division of Examinations concerning nonconforming securities listed in the report of examination of the 'Union Trust Company of Maryland', Baltimore, Maryland, as of April 18, 1938.

"It is noted that your examiner discussed the nonconforming securities listed in the report with the President of the bank who left the examiner under the impression that no immediate action would be taken unless some definite instructions were received from the authorities. As the bank is to be examined again in a short while, you prefer to have the question discussed at that time and request definite advice as to whether the bank should be required to dispose of the securities in question without delay. In the circumstances, we would interpose no objection to deferring further discussion of the matter with the bank until the time of the next examination.

"The Associated Mortgage Company bonds to which reference is made in Chief Examiner Gordon's memorandum of October 3, 1938, were described in the report of examination as nonconforming and the examiner quotes from a memorandum received from President McAdams to the effect that 'these bonds were acquired in connection with the sale of real estate by the Royal Realty Corporation'. This statement is not sufficient to explain the facts and circumstances regarding acquisition of the bonds nor to serve as basis for the determination of whether the bonds were acquired in violation of law. The question raised in Mr. Gordon's memorandum of October 3, as to what action should be taken regarding the bonds depends upon full knowledge of the facts and circumstances under which the bonds were acquired and whether, in the opinion of the reserve bank the bonds were acquired in good faith in working out a debt previously contracted or whether the acquisition represented a purchase of securities in violation of the spirit and terms of the law and the Comptroller's regulations."

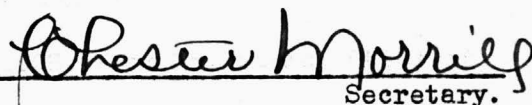
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



Chairman.



Secretary.