

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, October 29, 1938, at 11:00 a. m.

PRESENT: Mr. Eccles, 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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 28, 1938, were approved unanimously.

Letter to the board of directors of the "American Bank and Trust Company", Suffolk, Virginia, stating that, subject to conditions of membership numbered 1 to 4 and 6 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 Richmond:

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments

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"of each trust separate from those of all other trusts and separate also from the properties of the bank itself.

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating \$2,117.24, as shown in the report of examination of such bank as of August 29, 1938, made by an examiner for the Federal Reserve Bank of Richmond."

The letter also contained the following special comments:

"It has been noted that through its insurance department the bank does a substantial amount of insurance business and that although according to information furnished by the cashier of the bank, practically all of the accounts receivable and notes given to the department for insurance premiums are protected by the cancelation value of the policies in question, substantial losses have been incurred in such receivables. It will be expected that so long as the bank is a member bank, the insurance department will be a subordinate activity of the bank and that its operations will be conducted conservatively in the interest of the bank."

Approved unanimously, for transmission through the Federal Reserve Bank of Richmond.

Letter to the board of directors of the "Farmers State Bank", Wallace, Nebraska, stating that, subject to the conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H and the following special conditions, the Board approves the bank's

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application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City:

- "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 aggregating \$409.30, as shown in the report of examination of such bank as of September 20, 1938, made by an examiner for the Federal Reserve Bank of Kansas City."

Approved unanimously, for transmission through the Federal Reserve Bank of Kansas City.

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

"In accordance with the recommendation contained in your letter of October 17, 1938, the Board interposes no objection under the provisions of condition of membership numbered 8 to the use as banking quarters by the 'Salamanca Trust Company', Salamanca, New York, of the building recently acquired by foreclosure, which building is carried on its books at \$43,200, and to the expenditure of approximately \$60,000 for remodeling and furnishing the building."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"The question has recently been raised as to whether the principles set forth in the uniform agreement regarding revision of examination procedure (as published in the July 1938 Bulletin), particularly with respect to the



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"appraisal of securities and the requirements for charge-offs, are applicable to banks applying for membership as well as to banks which are already members of the System.

"The Board feels that in accordance with the spirit and purpose of the agreement depreciation in securities of banks applying for membership should be treated in the same manner as in the case of banks that are within the System. Accordingly the instructions in letters X-7581 and X-7705 dated September 11, 1933, and December 9, 1933, respectively, regarding the treatment of securities depreciation in connection with banks applying for membership in the System are cancelled. The provisions of letter S-113 dated September 3, 1938, apply to examinations made in connection with applications for membership as well as to examinations of State member banks and the technical question of whether a bank's capital is unimpaired will be determined by the deduction of the total of classification IV.

"While to be legally eligible for membership a bank must have an unimpaired capital, the acceptability of a bank for membership, of course, does not rest solely upon the determination of its legal eligibility."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The modification of the requirements for membership with respect to securities depreciation and the position taken by the Board that only the total of Classification IV (estimated losses) should be considered in determining whether the capital stock of a bank applying for membership is impaired, as set forth in its letter S-124, dated October 29, 1938, have a direct bearing on the application for membership of the 'Bradley Bank', Tomahawk, Wisconsin.

"The information submitted with the application of the Bradley Bank for membership has been reviewed and the Board is prepared to approve the application provided a favorable recommendation is received from your bank. Accordingly, it will be appreciated if you will review your recommendation as to the application in the light of the Board's letter S-124.

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"In view of the fact that the District Supervising Examiner of the Federal Deposit Insurance Corporation has requested that approval of the application be deferred and since a matter of policy was involved, the application was discussed with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, who, after reviewing the case, advised that he would interpose no objection to the Board entertaining the application at this time."

Approved unanimously.

Letter to Mr. Walter Lichtenstein, Secretary, Federal Advisory Council, reading as follows:

"Receipt is acknowledged of your letter of October 25, 1938, in which you state that the next meeting of the Federal Advisory Council will be held in Washington on Monday and Tuesday, November 28 and 29, 1938, and request advice of the topics which the Board of Governors desires the Council to discuss at that time.

"At the meeting on September 20 President Smith stated that action on the report submitted by the Council at its meeting with the Board on May 17, 1938, on the question 'How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?', had been deferred because of the absence of Mr. Williams who had prepared the report, but that the matter would be taken up at the next meeting. The Board does not have any additional topics to suggest at this time for consideration by the Council.

"We shall be pleased to arrange a luncheon for the members of the Council and will appreciate it if you will let us know whether the arrangement of having the luncheon on the first day of the meeting, as has been done in the past, will be satisfactory."

Approved unanimously.

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

"Receipt is acknowledged of your letter of October 22

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"and the copy inclosed therewith of a letter of invitation dated October 21 addressed to you by the Secretary of the Winnipeg Bankers' Lecture Club to make a talk before that organization next month on some general topic dealing with the differences between the banking set-up in the United States and that in Canada.

"It is not believed that the acceptance of an invitation of the kind described comes within the intent of section 14(g) and the Board has no objection to the acceptance by you of the invitation if it is satisfactory to the Federal Reserve Bank of Minneapolis for you to do so, with the understanding, in conformity with the practice in all such cases, that the Board will be furnished with a copy of the manuscript of your remarks."

Approved unanimously.

Thereupon the meeting adjourned.

Chesley Morrie  
Secretary.

Approved:

W. S. Coates  
Chairman.