

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 2, 1938, at 11:30 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 November 1, 1938, were approved unanimously.

Memorandum dated October 29, 1938, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated October 26 from Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, which requested approval by the Board of a change in the personnel classification plan of the bank to provide for the creation of the new position of "Senior Clerk" in the Bank Examination Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Letter to the board of directors of the "City Trust and Savings Bank", Kankakee, Illinois, stating that, subject to the conditions of

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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 Chicago:

- "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 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 \$9,847.18, as shown in the report of examination of such bank as of September 26, 1938, made by an examiner for the Federal Reserve Bank of Chicago.
- "9. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding, a legend reading substantially as follows:  
  
'Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding deferred certificates issued by the bank to those depositors who subordinated their deposits in 1933, pursuant to certain agreements, copies of which are on file with the City Trust and Savings Bank, must be paid.'

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"(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 9, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding deferred certificates to the rights of stockholders.)"

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 'City Trust and Savings Bank', Kankakee, Illinois, 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 Auditor of Public Accounts of the State of Illinois for his information.

"The total of estimated losses as shown under classification IV on page 3 of the report of examination for membership is \$9,647.18, whereas the correct amount apparently should be \$9,847.18. Accordingly, condition of membership numbered 8 as prescribed by the Board requires the elimination of the corrected figure of \$9,847.18.

"It is not entirely clear whether the bank is subject to any liability in connection with the contribution of \$50,000 which the stockholders as such made to the bank in 1934. Accordingly, it is assumed that, if you have not already done so, you will satisfy yourself, prior to the bank's admission to membership, that no such liability exists."

Letter to the board of directors of the "Peoples Trust and Savings Bank", Green Bay, Wisconsin, stating that, subject to the conditions of membership numbered 1 to 4 and 6 contained in the Board's

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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:

- "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 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 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 \$2,343.69, as shown in the report of examination of such bank as of September 26, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"In the report of examination for membership the trust examiner makes numerous criticisms of the operations of the trust department. It has been noted that a trust committee was appointed by the directors in June of this year but on date of examination had not functioned; that there is nothing in the by-laws or the minutes of the board of directors to indicate the scope of the duties of the committee nor the frequency of its meetings; that adequate supervision of the department by the directors has been lacking, reviews of securities have not been made, and that no evidence is to be found in the bank's records regarding a designated trust officer. Acceptance of trust business entails serious responsibilities and the Peoples Trust and Savings Bank will be expected to take the proper steps to bring its trust activities into conformity with approved practices."

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

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Telegram to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Referring Mr. Sargent's October 24 letter, Board will interpose no objection if September 28, 1938 condition report of The Traders Bank, Toppenish, Washington, is not published."

Approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Consideration has been given to your letter of October 4, 1938, regarding the applicability of the Clayton Act to certain officers of the First National Bank in St. Louis who are serving as directors of the State Bank and Trust Company of Wellston, Missouri, and the Board sees no reason to differ with the conclusion reached by you and your counsel that their services are not prohibited.

"The circumstances of the case are described fully in your letter but the controlling facts, in brief outline, are that the national bank assumed the deposit liabilities of the Franklin American Trust Company, and the trust company conveyed all of its assets to the national bank. Among the assets thus conveyed were 1,059 out of a total of 1500 shares, or 70.6 per cent, of the common stock of the Wellston bank. The facts are such that the liquidation of the assets conveyed will produce an amount approximately equal to the deposit liabilities assumed by the national bank, with the result that the national bank has approximately complete beneficial ownership of the stock of the Wellston bank which was conveyed to it, and certain other banks which guaranteed a portion of the deposit liabilities assumed have at most a negligible interest. In the circumstances, it is apparent that more than 50 per cent of the stock of the Wellston bank is owned indirectly by the stockholders of the national bank within the meaning of section 2(d)(4) of Regulation L."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.