

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 8, 1938, at 11:30 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

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 7, 1938, were approved unanimously.

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

"In view of the circumstances set forth in your letter of November 2, 1938, the Board approves for a further period of six months from November 1, 1938, the payment of a salary to Mr. E. A. Thaxton at the rate of \$3,000 per annum, which is in excess of the \$2,700 maximum annual salary provided in the personnel classification plan of your bank for the position he is temporarily occupying.

"It is noted that two employees, whose temporary assignments were approved by the Board on May 12, 1938, have now returned to their original positions."

Approved unanimously.

Letter to the board of directors of the "Bradley Bank",

11/8/38

-2-

Tomahawk, Wisconsin, stating that subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special 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 Minneapolis:

- "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 \$6,466.25 as shown in the report of examination as of September 6, 1938, made by an examiner for the Federal Reserve Bank of Minneapolis."

The letter also contained the following special comments:

"It has been noted that at the time of the examination for membership the bank had a substantial investment in substandard securities, and that the investment policy of the institution had been repeatedly criticized by the supervising authorities. According to the examiner, however, there has been a change in policy and assurances were given during the examination that the quality of the account would be improved and that purchases would be confined to high grade securities. The application of the bank for membership has been approved on the understanding that in the future administration of the bank's investment account the management will adhere strictly to sound investment principles."

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

11/8/38

-3-

"approves the application of the 'Bradley Bank', Tomahawk, Wisconsin, 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 Banking for the State of Wisconsin for his information.

"There are listed on page 16 of the report of examination for membership several savings accounts which do not appear to conform to the definition of savings deposits as contained in the Board's regulations, and it is assumed, of course, that in the event the bank completes its membership, such accounts will be brought into conformity with the regulations.

"In order to complete the Board's records, it will be appreciated if you will forward a copy of the form of capital debentures which the bank has sold to the Reconstruction Finance Corporation."

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"This refers to your letter of October 20, 1938, transmitting to the Board of Governors of the Federal Reserve System a copy of a letter of that date addressed by you to the Commissioner of Banking and Insurance for the State of New Jersey relative to the present condition of The New Jersey Title Guarantee and Trust Company, Jersey City, New Jersey, and advising that you would appreciate receiving any comments or suggestions which the Board of Governors might care to make relative to this situation.

"As you have been informed, the condition of the bank has been a matter of concern for some time, both to the Federal Reserve Bank of New York and the Board of Governors. The unsatisfactory condition of the institution and other weakened bank situations existing in Hudson County, in which the subject bank is located, calls for collaboration of Federal and State supervisory agencies in the development of plans to strengthen the banking situation in this county, since national banks, State member banks, and

11/8/38

-4-

"nonmember insured banks are involved in varying degrees. It would seem desirable in the circumstances that a comprehensive plan taking the whole county into consideration be developed and that action taken to correct an individual situation conform to such a plan.

"With respect to the situation of The New Jersey Title Guarantee and Trust Company, the Federal Reserve Bank has heretofore urged the institution to provide additional capital and otherwise strengthen its position and in their efforts to effect the desired corrections representatives of the Reserve bank have at various times conferred with representatives of the bank, the New Jersey State Banking Department, the Reconstruction Finance Corporation and your supervising examiner. At the suggestion of the Reserve bank an application was made by the bank to the Reconstruction Finance Corporation to sell \$4,500,000 additional preferred stock to that corporation but the application was declined May 6, 1938. The bank has stated that it was impossible to raise funds locally.

"As you know, the situation of the bank and the unsatisfactory banking situation in Hudson County was discussed at a meeting in the Board's offices June 7, 1938, at which you and Mr. Nichols of your Corporation were present together with representatives of the Board, the Reconstruction Finance Corporation, and the Federal Reserve Bank of New York. You will recall, no doubt, Governor McKee urged that the various supervisory agencies develop a program with the view to obtaining some action to correct the generally unsatisfactory banking situation existing in Hudson County. It was agreed that the agencies represented would study the problems presented to see what might be done to improve the situation. Since that time the Reserve bank has conferred with representatives of the bank, the Reconstruction Finance Corporation, the State Banking Department, and your supervising examiner. In an effort to strengthen the bank's position, its affiliated York Mortgage Company has applied to the Reconstruction Finance Corporation for an additional loan of \$500,000 and it is understood that the Corporation is now considering the application. The Federal Reserve bank has urged that the administration of the bank's real estate affairs be strengthened and during the year a new director experienced in the handling of real estate matters was appointed vice president and placed in charge of the bank's real estate and mortgage departments. While the Reserve bank feels that

11/8/38

-5-

"the change is beneficial and that the bank's real estate is now being more intelligently handled, the Reserve bank feels that the real estate problem is of such a character that any substantial progress in working out the problem through liquidation of real estate assets must necessarily be extremely slow.

"The State Banking Department started an examination of the bank as of October 17, 1938, in which examiners for the Federal Reserve bank are participating. On October 27, 1938, Judge Gardner, President of The New Jersey Title Guarantee and Trust Company, and Judge Beach, a director, visited the Reserve bank and stated that they do not feel the examination now under way will reflect much improvement over the examination made as of January 18, 1938, that they had come in to say that the bank must have help and have it at an early date as they do not think the matter can wait very long and feel that a solution of the problem is urgently needed. The Federal Reserve Bank of New York expresses the view that unless substantial capital assistance can be obtained within a reasonable time from the Reconstruction Finance Corporation, either alone or in cooperation with your Corporation, it will probably become necessary for the institution to be placed in liquidation, or, failing that, for consideration to be given to the possibility of taking steps looking toward forfeiture of its membership in the Federal Reserve System.

"In case you have not already been advised, you may be interested in learning that it is reported that the Hudson County National Bank of Jersey City is considering conversion into a State institution and that the State Banking Department is said to have suggested that if such a change be made, the program should include the assumption of the liabilities of The New Jersey Title Guarantee and Trust Company if that could be done on a sound basis. Recently in a general discussion with an officer of the Federal Reserve bank regarding the banking situation in Jersey City, the president of The New Jersey Title Guarantee and Trust Company indicated that the natural tie-up of his bank in a merger program would seem to be with the Hudson County National Bank.

"Since, as previously mentioned, a correction of the present unsatisfactory banking situation in Hudson County involves consideration of the problems of national and State member banks, as well as insured nonmember banks,



11/8/38

-6-

"and sufficient funds are not available from local sources to rehabilitate The New Jersey Title Guarantee and Trust Company, and possibly other banks in Hudson County needing financial aid, it appears that the principal part of any new funds introduced must, of necessity, come from the Reconstruction Finance Corporation and your Corporation. In such circumstances it is believed that the details of any rehabilitation program for banks in Hudson County and The New Jersey Title Guarantee and Trust Company in particular, should be largely determined by those who may be called upon to provide the needed funds and who are in a position to indicate the extent to which they feel they can go in rendering financial assistance in the Hudson County situation as a whole and to The New Jersey Title Guarantee and Trust Company in particular.

"The Board and the Federal Reserve Bank of New York will be glad to cooperate in the formulation of plans for corrective action and will be glad to have their representatives meet with representatives of your Corporation and other Federal and supervisory agencies for this purpose."

Approved unanimously.

Letter to Honorable Preston Delano, Comptroller of the Currency, reading as follows:

"This refers to Mr. Gough's letter of May 9, 1938 (CC-7-LD) requesting an expression of the Board's views with respect to certain questions relating to the deposit of trust funds by a national bank in its savings department. The questions are quoted and commented upon below:

'(1) May a national bank with trust powers, acting in a fiduciary capacity, deposit trust funds in its own savings department "as an investment", and would the answer be different in a State where state banks are permitted to invest trust funds in their own savings departments?' "Section 11(a) of the Board's Regulation F provides that 'funds received or held by a national bank as fiduciary shall not be invested in \* \* \* obligations of \* \* \* the bank', and a footnote appended thereto provides that such requirement 'shall not be deemed to prohibit investments which are expressly required by the instrument

11/8/38

-7-

"creating the trust or by court order'. Accordingly, the Board is of the opinion that a national bank is not permitted to invest trust funds by depositing them in its own savings department unless such investment is expressly required by the instrument creating the trust or by court order. In this light, it is believed that it is immaterial whether State banks are permitted to invest trust funds by so depositing them.

'(2) If trust funds are deposited in its savings department "as an investment" are such funds required to be secured by assets of the bank segregated in the trust department?'

"Section 11(k) of the Federal Reserve Act and section 9(b) of Regulation F require that trust funds awaiting investment or distribution which are used by a national bank in the conduct of its business be secured by the deposit of securities in the trust department of the bank. However, the Board is of the opinion that trust funds invested by a national bank by deposit in its own savings department are not required to be secured because they are not funds awaiting investment or distribution. In this connection, it may be suggested that trust funds deposited by a national bank in its own savings department ordinarily should be assumed to be funds awaiting investment or distribution if they cannot properly be invested in obligations of the bank under the provisions of section 11(a) of Regulation F referred to above.

'(3) Where the provisions of the trust instrument require legal investments, may a national bank deposit funds "awaiting investment or distribution" in its own savings department under the provisions of 11(k) of the Federal Reserve Act and of Regulation F, if savings accounts "as an investment" cannot be considered as conforming to local statutes?'

"Section 11(k) of the Federal Reserve Act and the Board's Regulation F do not prohibit a national bank from depositing in its own savings department trust funds administered by it and awaiting investment or distribution, but it should be borne in mind that section 9(a) of Regulation F provides that trust funds shall not be held uninvested or undistributed by a national bank 'any longer than is reasonably necessary'. Of course, as

11/8/38

-8-

"indicated in Mr. Gough's letter, any such deposit must conform to the requirements of the Board's Regulation Q relating to 'savings deposits'. The question whether, under the laws of a particular State in which a national bank may be located or under the provisions of a particular trust instrument, a national bank may properly carry trust funds awaiting distribution or investment in a savings deposit is one depending upon all the facts in the particular case and the proper construction of the State law, upon which it is understood you do not desire a ruling by the Board."

Approved unanimously.

Letter to Honorable Daniel C. Roper, Secretary of Commerce,  
prepared for the signature of Chairman Eccles, and reading as follows:

"In response to your letter of November 1, we are writing to the Federal Reserve banks asking that they continue the collection of department store statistics on the present basis until July 1, 1939.

"While we regret that the Department of Commerce is not in a position to take over the collection of department store statistics at the beginning of the calendar year, as was originally hoped, we are glad that funds for this work have been included in your budget estimates for the fiscal year 1940. Accordingly, we shall plan to make the transfer in the middle of 1939 and shall notify the Federal Reserve banks of our plan."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.