

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 30, 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 28, 1938, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on November 29, 1938, were approved unanimously.

Letter to the board of directors of the "State and Savings Bank", Monticello, Indiana, 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 Chicago:

11/30/38

-2-

- "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. As soon as practicable such bank shall dispose of any loans secured in whole or in part by its own stock or debentures or obtain the substitution of other adequate security for each such loan."

The letter also contained the following special comments:

"It has been noted that although the bank has full trust powers and is exercising such powers to a limited extent under the direction of the president, who acts as trust officer, no designation of a trust officer has been made by the directors and no trust committee has been appointed. Acceptance of trust business, no matter how small, entails serious responsibilities and if the bank expects to continue its trust business it will be expected to take the proper steps to bring its trust activities into conformity with approved practices."

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 'State and Savings Bank', Monticello, Indiana, 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

11/30/38

-3-

"files and the other of which you are requested to forward to the Director, Department of Financial Institutions, for the State of Indiana 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 the assets so classified has not been prescribed.

"It is understood that the laws of the State of Indiana prohibit the bank from pledging its assets as security for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization previously granted by the Board with which you are familiar.

"The report of examination indicated that the bank was carrying a balance in excess of 10% of its capital with the Farmers & Merchants State Bank, Logansport, Indiana (a nonmember bank). It is suggested that the bank's attention be called to the provisions of section 19 of the Federal Reserve Act with respect to the limitation prescribed on balances which a member bank may keep on deposit with a State nonmember bank."

Letter to the board of directors of the "First Bank and Trust Company of South Bend," South Bend, Indiana, 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 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

11/30/38

-4-

"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 of \$27,753.51, as shown in the report of examination of such bank as of September 2, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"The report of examination made in connection with the application for membership reflects the unusual extent to which the bank has engaged in the handling of automobile and other finance paper. It is understood that, following the examination made in March by State examiners and Federal Deposit Insurance Corporation examiners, the question of concentration in such paper was discussed, that the management agreed to keep the concentration within certain limits, and that since the March examination there has been a material reduction in the aggregate amount of such paper held. It will be expected that the spirit of the agreement regarding handling of finance paper will continue to be observed after admission to membership and that the concentration in such paper will at all times be maintained within prudent limits."

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 'First Bank and Trust Company of South Bend', South Bend, Indiana, 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.

11/30/38

-5-

"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 Director, Department of Financial Institutions for the State of Indiana for his information.

"It is understood that the laws of the State of Indiana prohibit the bank from pledging its assets as security for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization previously granted by the Board with which you are familiar.

"It is noted that your examiner has described in some detail the procedure followed by the bank in administering collateral trusts held and it is assumed that you will discuss with the management the advisability of effecting such changes in the handling thereof as may appear to be proper.

"It is noted also that the papers submitted with the bank's application did not include a copy of a certificate from the State authorities authorizing the bank to commence business. If such a certificate was required at the time of the organization of the bank in 1922, it will be appreciated if you will forward a copy thereof in order that the Board's records may be complete."

Letter dated November 29, 1938, to the "First-Fond du Lac National Bank", Fond du Lac, Wisconsin, reading as follows:

"This refers to the resolution adopted on July 18, 1938, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This

11/30/38

-6-

"certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"On pages 2 and 6 of the report of examination of the 'Manchester Bank of St. Louis', St. Louis, Missouri, as of August 29, 1938, the examiner raises the question as to whether the \$5,000 par value Affiliated Fund Incorporated 5% 10-year Secured Convertible Debentures recently purchased by the bank are investment securities within the meaning of the term as defined in the regulations of the Comptroller of the Currency, and states that the matter is being submitted to the Board of Governors of the Federal Reserve System for determination. No reference to the question was contained in your letter forwarding the report of examination to the Board, and it is not clear, particularly in view of the Board's telegram to you dated April 4, 1938, regarding the eligibility of such debentures, whether you regarded the statements in the report as a formal request for a ruling from the Board.

"It is rather unusual for comments of the kind referred to on pages 2 and 6 to appear in open sections of reports of examination and it is believed that it would

11/30/38

-7-

"be preferable for requests for rulings by the Board to be submitted in separate letters by the vice president in charge of the bank examination department or the president or first vice president of the bank, and that such letters contain full information regarding the question raised, together with any comments or suggestions which the Reserve bank cares to offer.

"In this particular case it may be stated that the Comptroller's office has previously taken the position in specific instances that debentures of the Affiliated Fund Incorporated were considered as not falling within the definition of investment securities contained in the Comptroller's regulation. However, as you know, it is not the Comptroller's practice to rule generally with respect to specific issues."

Approved unanimously.

Letter dated November 29, 1938, to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"There are inclosed a copy of a letter dated October 22, 1938, from Mr. J. H. Frost, President of The Frost National Bank of San Antonio, San Antonio, Texas, relative to the provisions of the Clayton Act and a copy of my letter of this date to him which are self-explanatory.

"In this connection your attention is invited to the possibility that Mr. Frost's services with The Frost National Bank of San Antonio and The National Bank of Fort Sam Houston at San Antonio may come within the exception set forth in section 2(d)(5) of the Board's Regulation L; and for your information in the consideration of this question there is also inclosed a copy of the Board's letter of February 9, 1938, to Vice President Worthington of the Federal Reserve Bank of Kansas City relative to the question whether Leavenworth and Fort Leavenworth, Kansas, are 'contiguous or adjacent' within the meaning of the exception referred to above.

"Of course, if The National Bank of Fort Sam Houston is located within the corporate limits of the City of San Antonio, the exception set forth in section 2(d)(5) of Regulation L would not apply, and even if the bank is situated within the military reservation, there may be other

11/30/38

-8-

"facts which would differentiate this case from that discussed in the Board's letter to Vice President Worthington. Accordingly, it is suggested that you and counsel for your bank give such consideration as you deem necessary to the question whether section 2(d)(5) is applicable to Mr. Frost's services with the two national banks, and in the event that you are of the opinion that it is applicable, it is suggested that you advise Mr. Frost accordingly. Of course, the Board will be glad to consider any question regarding the matter which you feel should be submitted to it."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...

Chairman.