

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 13, 1938, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
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 December 10, 1938, were approved unanimously.

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

"This will acknowledge receipt of your letter of December 9 with respect to proposed increases in salaries of certain officers of your bank for the calendar year 1939.

"The salaries as shown in your letter will be reviewed by the Board and if it desires to take up any question with respect thereto with you before formal action is taken by your directors at their first meeting in January, 1939, it will do so before the end of this year."

Approved unanimously.

Letter dated December 12, 1938, to the board of directors of

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the "Bank of Warren", Front Royal, Virginia, stating that, subject to the 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 Richmond:

- "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 \$10,292.20, as shown in the report of examination of such bank as of October 31, 1938, made by an examiner for the Federal Reserve Bank of Richmond."

The letter also contained the following special comments:

"It appears that the bank possesses, but, at the time of its application for membership, was not exercising, certain powers not necessarily required in the conduct of a banking business, such as power to guarantee the payment of bonds. Attention is invited to the fact that, if the bank desires to exercise such powers or any other powers not actually exercised at the time of admission to membership, it would be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board of Governors understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

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"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Warren', Front Royal, Virginia, 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 Insurance and Banking for the Commonwealth of Virginia for his information.

"The report of examination for membership lists one savings account which apparently does not conform to the definition of savings deposits as contained in the Board's Regulation Q, and it is assumed, of course, that, if the bank is admitted to membership, such account will be brought into conformity with the Regulation."

Telegram to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, referring to the application of the "State Bank of Aurora", Aurora, Minnesota, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal Reserve bank stock issued to the State Bank of Aurora, the Federal Reserve Bank of Minneapolis is authorized to cancel such stock and make appropriate refund thereon. The telegram also stated that it was understood that the State Bank of Aurora desired to continue without interruption its status as an insured bank and that it was assumed that termination of its membership in the Federal Reserve System would be deferred until it could simultaneously be accepted by the Federal Deposit Insurance Corporation as a nonmember insured bank.

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Approved unanimously, together with a letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"The Board has today approved the application of 'State Bank of Aurora', Aurora, Minnesota, for permission to withdraw from membership in the System and waived the usual six months' notice of intention to withdraw.

"It is understood that the bank desires to continue, without interruption, its status as an insured bank and that it desires the insurance on deposits as a nonmember to become effective simultaneously with its termination of membership in the System.

"It is understood also that you may desire to make an examination of the bank; therefore, in accordance with the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, the Board hereby grants written consent for examiners for the Federal Deposit Insurance Corporation to examine the State Bank of Aurora, Aurora, Minnesota, in connection with its application for continuation of deposit insurance as a nonmember bank."

In connection with the above matter, the following letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, was also approved unanimously:

"Reference is made to Mr. Swanson's letter of December 5, 1938, transmitting the application of the 'State Bank of Aurora', Aurora, Minnesota, for permission to withdraw from the System and requesting that the Board waive the usual six months' notice of intention to withdraw. The bank's application has today been approved by the Board and Mr. Swanson so advised by telegram.

"It has been noted that the bank states as one of its reasons for desiring to withdraw that 'the dual system of banking under which we now operate does not especially suit our needs.' Inasmuch as the bank advises that it wishes to remain an insured bank after termination of membership in the System, in which event, of course, it will be subject to examination and supervision by the Federal Deposit Insurance Corporation, it would appear that the bank's

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"objection may not be so much to the dual system of banking as it is to its relations with the Federal Reserve System. It is assumed that the matter has been discussed with the bank, and it will be appreciated if you will advise the Board further as to the bank's reasons for desiring to withdraw from membership. It will be particularly appreciated if you can clarify the bank's position with respect to the failure of the dual system of banking to suit its needs."

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

"Reference is made to the report of examination of the Calvert Bank, Baltimore, Maryland, as of August 8, 1938, and the information submitted in connection therewith, particularly Mr. Gordon's memorandum of October 21.

"It has been noted from Mr. Gordon's memorandum that Vice President Townsend, of the member bank, called at the Reserve Bank to discuss the report of examination and that as a result of the discussions promised to take up with the directors the matter of increasing the bank's capital. Such consideration, however, has apparently not produced any definite results, as it has been reported that Mr. Townsend and an unnamed director of the bank called on the Deputy State Bank Commissioner, and while admitting the advisability of a program for increasing the bank's capital, expressed opposition to making any effort to sell additional common stock at this time, contending that the best interests of the institution would be served if any such action were deferred until sometime next year, awaiting development of the present recovery program, which it was believed would show much improvement by that time.

"As is pointed out both by you and the Deputy Bank Commissioner in your letters to the bank regarding the report of examination, the bank's principal problem lies in its security account, but even with no allowance for depreciation in securities, the bank has a low capital ratio. In the circumstances it would appear that some definite program for increasing the bank's capital should be formulated. In this connection the continued payment

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"of dividends, particularly at the rate of 10 per cent as the bank has been doing, does not appear to be justified while capital is inadequate. In view of the apparent reluctance of the management to face facts or to take remedial action, it is suggested that the situation is one requiring close attention and it will be appreciated if you will keep the Board advised of developments.

"It has been noted that the bank has an exceptionally large number of issues in its investment account and that the State Banking Department has repeatedly criticized the account as containing entirely too many issues to permit proper supervision. The soundness of such criticism is apparent and it is assumed that you are supporting the State Banking Department in its efforts to have the bank adjust its portfolio in a manner which will permit of proper supervision by the officers and directors of the bank."

Approved unanimously.

Letter dated December 12, 1938, to Mr. C. B. Upham, Deputy Comptroller of the Currency, reading as follows:

"Please accept our thanks for your letter of November 30, 1938, supplying certain additional information with regard to the absorption of exchange charges by the National Bank of Commerce of Lincoln, Nebraska, pursuant to the request contained in the Board's letter of August 3, 1938.

"This matter is under consideration, and, in accordance with your request, when any determination has been reached as to action to be taken in the matter, we shall be glad to advise you or furnish you with a copy of any letter which we may write to the national bank on the subject."

Approved unanimously.

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

"This refers to your letter of December 6, 1938,

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"suggesting that you discuss with the local United States Attorney the matter of the irregularity of Mr. K. G. Tapert, a former employee in the Transit Department of the Seattle Branch, rather than make a formal written report of the matter.

"In view of the small amount involved and the other circumstances of the case as set forth in your letter, the Board has no objection to your handling the matter as suggested by you."

Approved unanimously.

It was stated that an official luncheon was being arranged in one of the Board's dining rooms on Monday, December 19, 1938, to be attended by Philip A. Benson, President, Robert M. Hanes, First Vice President, P. D. Houston, Second Vice President, and D. J. Needham, General Counsel, of the American Bankers Association, Harold Stonier, Executive Manager of the American Bankers Association, and Robert V. Fleming, Chairman of the Legislative Committee of the American Bankers Association, and the members of the Board of Governors.

The payment by the Board of the cost of the luncheons of the visitors was approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary

Approved:

W. C. ...
Chairman.