

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 2, 1939, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

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

Memorandum dated July 28, 1939, from Mr. Morrill recommending that, for the reason stated in the memorandum, the Board approve the payment of the doctor's bill in the amount of \$15.00 incurred by Sven Johnson, supervising janitor, in connection with treatments of injuries to his feet received while painting the freight elevator's vestibule floors in the Board's building.

Approved unanimously.

Memorandum dated July 12, 1939, from Mr. Noell, Assistant Secretary, recommending, with the concurrence of Mr. Morrill, that authority be granted by the Board to the Secretary's Office to approve the allowance of leave without pay to employees of the Board in such cases as the head of the office or division recommends as being meritorious, and to continue contributions to the retirement system in such cases up to the end of the semi-monthly payroll period following the one in which leave without pay begins, with the understanding

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that the employee will continue his own contributions to the retirement system during such periods. It was also understood that in cases involving leave of absence extending beyond the period thus fixed, a recommendation would be submitted to the Board for action with regard to both the allowance of leave without pay and the continuance of the retirement system contributions.

Approved unanimously.

Letter to the board of directors of "The Sylvania Savings Bank Company", Sylvania, Ohio, 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 Cleveland:

- "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 \$560 as shown in the report of examination of such bank as of July 5, 1939, made by an examiner for the Federal Reserve Bank of Cleveland."

Approved unanimously for transmission through the Federal Reserve Bank of Cleveland.

Letter to the board of directors of "The State Bank of Piper City, Illinois", Piper City, Illinois, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's

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Regulation H and the following special condition, 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:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

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

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

"The Washington office of the Federal Deposit Insurance Corporation has forwarded to us a copy of a letter dated July 20, 1939, received from the First Security Bank, Beaverton, Oregon, requesting approval of the retirement by the bank of \$2,000 capital debentures held by the Reconstruction Finance Corporation. A copy of the bank's letter and of the resolution submitted therewith are enclosed.

"It has been noted that you advised the member bank on February 1, 1939, that it was not necessary to file an application for permission to retire such debentures with the Federal Deposit Insurance Corporation, and it is probable that the bank, in accordance with its former procedure, has forwarded a similar request to you. Nevertheless, the bank may not have done so and the matter is referred to you for such action as you may deem appropriate.

"The Washington office of the Reconstruction Finance Corporation has advised us informally that they have received no information regarding the proposed retirement; that no further retirements by the First Security Bank prior to February 1, 1940, would be necessary to entitle it to the minimum rate on debentures; and that whether a further retirement prior to August 1, 1940, would be necessary to secure the minimum rate would, under the

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"terms of the contract, depend upon the bank's actual earnings.

"In your letter of January 30, 1939, with reference to the retirement of \$1,000 of debentures effected January 21, 1939, you stated that your decision to interpose no objection was based, in part, upon consideration of the action taken by the Board on the bank's previous requests for permission to retire its debentures. It is felt, however, that continued substantial reductions are not justified in view of the bank's low capital ratio and the trend of its deposits. It is suggested, therefore, that, in the absence of a material change in the bank's capital position, no further retirement of debentures be approved beyond the amount necessary to enable it to receive the minimum rate."

Approved unanimously.

Letter to "The First National Bank of Ovid", Ovid, New York,

reading as follows:

"This refers to the resolution adopted on June 10, 1939, 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, understanding that your bank has never actually accepted or undertaken the exercise of any trust, 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 certificate is enclosed 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 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

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"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. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to the annual report on Form F.R. 437 of Sebastopol National Securities Co., Sebastopol, California, for the fiscal year ended December 31, 1938. It is noted that the holding company affiliate reported that the stocks of its two subsidiary nonmember State banks, Analy Savings Bank, Sebastopol, and Bank of Guerneville, carried 'double liability'. However, it did not report possession of readily marketable assets other than bank stock in sufficient amount to comply with the requirements of subsection (b) of section 5144, Revised Statutes, regarding readily marketable assets to be held in connection with bank stocks subject to statutory liability. In view of the provisions of the California statutes regarding termination of such statutory liability, it is suggested that you ascertain from Sebastopol National Securities Co. whether the stocks controlled by it of the two banks named still carry 'double liability'. If the stocks are, in fact, subject to statutory liability, please inform us as to the steps taken by the holding company affiliate to comply with the requirements of section 5144 referred to.

"It is noted that in your letter of January 28, 1939, you called the corporation's attention to an apparent violation of paragraph 7 of the agreement contained in its application for a voting permit because of an excess of dividends paid during the year 1938 over the net income for the year reported by the corporation. A review of the information in our files indicates that in prior years, net income exceeded dividends paid by amounts which, if accumulated, would cover the excess of dividends paid during 1938. The reports of the holding company affiliate reflect a debit balance in its earned surplus, which appears to have resulted from entries made in the past in connection with revaluations of assets, but available information is not sufficient to show clearly whether the

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"corporation's reports properly should reflect a debit or a credit balance in the earned surplus account. Accordingly, it is requested that you have an examiner for the Federal Reserve Bank of San Francisco inspect the records of Sebastopol National Securities Co. and analyze entries affecting surplus from appreciation of assets, earned surplus, undivided profits, profit and loss, reserve accounts, and any other related accounts, obtaining from the officers of the corporation any necessary explanations as to the nature and purpose of the entries, in order to arrive at a proper statement of any accumulated actual net earnings of the corporation. It will be appreciated if you will forward to us a copy of the analysis prepared by your examiner, together with such comments and suggestions as you may wish to make regarding the matter.

"This information is desired as soon as practicable, but if national bank examiners expect to examine The Sebastopol National Bank and the holding company affiliate in the near future, it will be satisfactory for your examiner to wait and participate in the examination of the holding company affiliate and develop, among other things, the special information desired. In this connection, however, it is understood that The Sebastopol National Bank was examined recently and presumably it will be several months before the bank and the holding company affiliate will be examined again by national bank examiners.

"The reports of Sebastopol National Securities Co. to the Board as of June 30, 1938, and for the fiscal year ended December 31, 1938, did not include analyses of surplus other than earned surplus, nor of reserve accounts. In order to complete the reports, it is requested that when your examiner obtains the information outlined above he obtain also an analysis of each surplus account other than earned surplus and of each reserve account (including valuation reserves deducted from assets) for the fiscal years ended December 31, 1937, and December 31, 1938, showing the balance at the beginning of the year, description of additions and deductions during the year, and the balance at the end of the year."

Approved unanimously.

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Letter to Mr. Stuart A. Rice, Chairman, Central Statistical Board, reading as follows:

"Chairman Eccles has brought to the attention of the Board your letter of July 24 suggesting the designation of some one to work with the staff of your Board and with representatives of other banking authorities in developing questions which might be used in connection with the December 1939 call report of condition, with a view to obtaining data concerning the volume of retail instalment paper and related items held by banks.

"In view of the fact that two of the Divisions of the Board's staff would be concerned in such an activity, Mr. J. E. Horbett, Assistant Chief of the Division of Bank Operations, and Mr. Woodlief Thomas, Assistant Director of the Division of Research and Statistics, have been designated for this purpose and will be glad to participate in the informal conference suggested. It is therefore suggested that you communicate directly with them when you are ready for such a discussion."

Approved unanimously.

The Board was advised that it had been suggested that the chief national bank examiners, who are in Washington for a conference called by the Comptroller of the Currency, together with certain members of the staffs of the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation who are engaged in examining work, be invited to have luncheon in the Board's dining rooms on Thursday, August 3, 1939, at 1:00 p.m.

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

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.