A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 26, 1939, at 11:30 a.m.

PRESENT: Mr. Ransom, Vice 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 October 25, 1939, were approved unanimously.

Letter to the board of directors of the "First Bank & Trust Company", Ottumwa, Iowa, 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 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 of $18,131.20, as shown in the report of examination of such bank as of September 26, 1939, made by an examiner for the Federal Reserve Bank of Chicago.

"9. Prior to admission to membership, such bank shall relinquish its branch at Eddyville, Iowa."

The letter also contained the following special comments:

"Condition of membership numbered 9 has been prescribed, not because of any conditions peculiar to the Eddyville branch, but because of the fact that the capital stock of the bank is less than $500,000, the minimum amount required under the Federal Reserve Act for the operation by a member bank in Iowa of an out-of-town branch established since February 25, 1927.

"The report of examination for membership contains various criticisms of the operation and supervision of the trust department which the examiner reports were discussed with officers of the bank. Acceptance of trust business entails serious responsibilities, and as a member bank the First Bank & Trust Company will be expected to take the necessary steps to give the trust department proper attention and bring the 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 'First Bank & Trust Company', Ottumwa, Iowa, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banking for the State of Iowa for his information."
"It has been noted from the report of examination and the memorandum accompanying the application that the bank proposes to make certain adjustments in its capital structure which will include a reduction in the bank's capital from $300,000 to $150,000. It is understood that these adjustments will be properly approved by the supervisory authorities and the application for membership has been approved with the understanding that such adjustments may be made.

"It has been noted also that the bank contemplates making a change in its corporate title, and if such change is accomplished prior to admission of the bank to membership, advice as to the correct legal name should be included in the telegram advising of the bank's admission to membership.

"You will observe that the Board has not prescribed the special condition recommended by the Reserve Bank regarding the transfer of the liquidation of the segregated assets to the State Banking Department. It appears that under the depositors' agreement the segregated assets set up in a trust for waiving depositors were to be administered by the directors of the bank without expense to the beneficiaries of the trust or by such other persons as the Superintendent of Banking might designate. Accordingly this matter seems to be entirely within the jurisdiction of the State Banking Department and it is felt that the disposition to be made thereof should more properly be left to their discretion. It is understood, however, that the bank and the Superintendent of Banking have agreed that the administration of the trust will be taken over by the Banking Department."

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

"4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."
Approved unanimously, together with a letter to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Prairie State Bank', Augusta, Kansas, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Kansas for his information.

"It is understood that the Stockholders Special Fund account, carried in the individual ledgers and amounting to approximately $54,900, represents an accumulation of earnings and recoveries over a period of years; that the account has been under the management of the Board of Directors of the bank; and that the members of the Board own substantially all of the bank's capital stock. It is understood also that the management of the bank has agreed to transfer the entire amount in the account to valuation reserves against securities and loans, or possibly just against securities, which arrangement, in view of the circumstances, will be satisfactory to the Board.

It was not felt necessary to prescribe a condition of membership to require the transfer of the account from the individual ledgers, as the recommendation of the Reserve Bank Committee was taken to suggest, but it is assumed that you will follow to a conclusion compliance with the arrangements agreed upon.

"In the appropriate schedule on page 11(a) of the report of examination for membership the examiner lists two loans as being in excess of the limitations of Section 11(m) of the Federal Reserve Act and in his comments on page 2 he makes reference to the two loans and states that the management promised correction. Apparently the management of the bank was led to believe that after its admission to membership the two loans would constitute violations of Section 11(m) and that reductions in the loans to within the prescribed limits would be necessary. Such is not the case, however, as the provisions of Section 11(m) are not applicable to nonmember banks, and it is suggested that the erroneous impression be corrected.
"On page 17 of the report the examiner states that President Haines is a director of a firm of investment dealers and that upon the bank's admission to membership such relationship will be contrary to the provisions of Section 32 of the Banking Act of 1933, and the Board's Regulation R. It is assumed, of course, that if you are satisfied that the relationship will be in violation of Section 32 you have discussed the matter with the applicant bank."

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

"The report of examination of the Citizens State Bank of Dalhart, Dalhart, Texas, as of September 9, 1939, shows that subsequent to the examination of August 15, 1938, the institution invested $17,000 in bank premises without first referring the matter to the Board for consideration as required under its condition of membership numbered 3.

"The report of examination as of September 9, 1939, reflects a sound condition with an adjusted capital account of approximately $118,800 and the investment in the bank premises, therefore, does not appear to be unduly large or improper. It is understood that the management of the institution assured your examiner that adequate provision will be made for depreciation in banking house. Accordingly, in order that there may be no question in the future as to compliance with the provisions of condition of membership numbered 3 by reason of the investment made in bank premises, the Board has noted the transaction and will regard it as a closed matter under the provisions of condition of membership numbered 3. It is requested that you so advise the bank."

Approved unanimously.

Letter to Mr. Dillistin, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of October 20, 1939, transmitting an application from the Bankers Trust Company, New York, New York, for permission to conduct at 'Tetworth', Ascot, England, such of the operations
"of the London branch of Bankers Trust Company as may seem advisable during the period of the present emergency."

"There is enclosed a letter to the Bankers Trust Company approving such application and it will be appreciated if you will forward the same to the Bankers Trust Company. There is also enclosed a copy of such letter for your files. Please advise the Superintendent of Banks of the State of New York of the Board's action in the premises."

Approved unanimously, together with a letter to Mr. Shepard, Vice President of the Bankers Trust Company, New York, New York, reading as follows:

"This refers to your letter of October 17, 1939, addressed to the Federal Reserve Bank of New York, making application for permission of the Board of Governors of the Federal Reserve System to conduct at 'Tetworth', Ascot, England, as a temporary measure for the duration of the present emergency, such operations of your London branch as, in the opinion of the management of such branch, may seem advisable. You state that the occupancy of quarters at Sunningdale, England, has proved unsatisfactory, and that it is the purpose of your bank to discontinue its present activities at Sunningdale. In this connection, we note that only certain accounting and non-operating departments of the London branch have been transferred to Sunningdale, while the branch was continuing to keep its physical assets and to conduct its essential banking operations in London.

"In the circumstances, you are advised that the Board of Governors hereby approves your application for permission to establish a branch at 'Tetworth', Ascot, England, under the conditions outlined above and subject to the provisions of sections 9 and 25 of the Federal Reserve Act, as amended. It is noted that you expect to obtain the approval of the Superintendent of Banks for the State of New York for the establishment of the branch.

"Please keep the Federal Reserve Bank of New York advised with respect to the extent and date of the transfer of any banking or other operations to Ascot, and of the discontinuance of the activities of the London branch which have been carried on at Sunningdale."
Thereupon the meeting adjourned.

Approved:

[Vice Chairman.]

Chester Horrell
Secretary.