

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, November 13, 1939, at 11:30 a. m.

PRESENT: 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:

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

"This refers to your letter of October 23, 1939, in reply to the Board's letter of October 5, 1939, regarding unsatisfactory features in the condition of the Calvert Bank, Baltimore, Maryland, and asking that you keep the Board advised of developments in connection with your efforts to have the bank strengthen its capital and improve its asset condition.

"It is observed that a committee of the bank's directors appointed to study the report of examination as of August 14, 1939, feels that the bank's earnings, together with expected appreciation in some of its holdings of securities, particularly those of railroads undergoing reorganization, will provide the bank within a reasonable time with a capital structure adequate in relation to deposits. In his letter to you of October 19, 1939, Mr. Hospelhorn, Deputy Bank Commissioner, agreed that the committee's position is disappointing but states that the Banking Department is hesitant to press for additional capital funds at the present and doubts that much can be definitely accomplished by attempting to force the bank to do anything about the capital situation at this time. He suggests, therefore, that the bank be permitted to continue under its present status until the next examination, during which interval of time the Banking Department and the Reserve Bank as well as the Calvert Bank will have an opportunity to

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"appraise the amount of recovery which may be anticipated in the security account.

"As was pointed out in the Board's letter of October 5, it is the responsibility of the bank both as a matter of sound banking principle and under the provisions of condition of membership numbered 15 to maintain a sound capital structure, adequate in relation to the bank's deposit liabilities and other corporate responsibilities. It is felt, therefore, that, if nothing more can be accomplished at this time, the bank at least should review its dividend policy and give careful consideration to the advisability of conserving its earnings pending an adequate improvement in the condition of the bank's assets or the introduction of additional capital.

"This situation has been dragging for some time and the bank has not taken any definite steps to strengthen its capital structure. It will be appreciated, therefore, if, when you submit the annual report called for in the Board's letter of February 28, 1936 (X-9506), on the capital position of State member banks subject to a condition of membership requiring the maintenance of adequate capital, you will give full consideration to the condition of the bank, its capital structure, its dividend policy, and, after consultation with the Maryland State Banking Department, recommend to the Board such action as you may then deem advisable in the circumstances."

Approved unanimously.

Letter to Mr. McCabe, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Philadelphia, made as of September 8, 1939, by the Board's examiners, a copy of the report of examination was left for your information and the information of the other directors and a copy was also furnished President Sinclair. After the report of examination has received the consideration of the Board of Directors of the Federal Reserve Bank, the Board will appreciate advice as to any action taken or to be taken with respect thereto as well as with respect to any other significant matters which may have been discussed by the examiners with the management

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"during the course of examination."

Approved unanimously.

Memorandum dated November 8, 1939, from Mr. Smead, Chief of the Division of Bank Operations, recommending that, for the reasons stated in the memorandum, the item printing and binding in the 1939 budget of the Division of Bank Operations be increased from \$2,500 to \$3,000. The memorandum stated that the proposed increase will not involve an increase in the Division's total budget for non-personal services.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Chester Davis

Member.