

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, January 17, 1940, at 3:20 p.m.

PRESENT: Mr. Eccles, Chairman (latter part of meeting)
Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Dreibelbis, Assistant General Counsel

Mr. McKee stated that yesterday afternoon Mr. Day, President of the Federal Reserve Bank of San Francisco, called on the telephone, and, with Mr. Clerk, First Vice President of the Federal Reserve bank, also on the wire at that end, and Mr. McKee and Mr. Paulger, Chief of the Division of Examinations, at this end, there was carried on a telephone conversation substantially as follows:

Mr. Day said that shortly after his telephone conversation with Mr. McKee on January 15, Russell G. Smith, Executive Vice President of the Bank of America, called at the Federal Reserve bank and asked to be advised of the steps that would have to be taken to convert the Bank of America National Trust & Savings Association into a State bank, giving the impression that he felt the conversion was nothing more than a technical step that could be completed before the ninety days specified in the law before the report of examination of the national bank could be published under the procedure instituted by the

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Comptroller of the Currency. Mr. Day inquired of Mr. McKee whether that was the feeling of the Board of Governors and Mr. McKee replied that, speaking for himself and not for the Board although he believed the other members of the Board would feel as he did, he would not be willing to let the bank use this approach to membership in the Federal Reserve System as a means of getting away from the merits of the criticisms made by the Comptroller of the Currency, and that, if there were any basis for the findings of the Comptroller, they would be taken into consideration by the Board in passing upon the bank's application for membership in the Federal Reserve System. Mr. Day's reply was that he did not think Mr. Smith had anything like that in mind.

At this point Mr. Clerk came into the conversation and said that if an application for membership were filed for the bank as a State institution he would like to treat the application as coming from a new bank and approve the taking over by the new institution of only sound assets. Mr. McKee inquired of Mr. Clerk whether it was felt the Federal Reserve bank could take the report of examination made by the office of the Comptroller of the Currency as a basis for determining any conditions of membership that would be prescribed or whether it would be necessary to make another examination and Mr. Clerk replied that he thought he could take the Comptroller's examination and supplement that with any additional information that might be needed. Mr. McKee told Mr. Day that if Mr. Smith had the idea that all the

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bank had to do was to apply for membership and sign the necessary papers Mr. Day should correct that impression and that the application if filed would be treated in the same way as an application from any other bank.

Mr. McKee then advised the other members of the Board that he felt the Federal Reserve Bank of San Francisco would be inclined to recommend, in connection with an application for membership, that all questionable assets be eliminated from the bank, that the question of action on the application before the expiration of the ninety day period above referred to might be presented to the Board, and that there was a question in his mind whether it would not be advisable for the Board to send a member of its Division of Examinations and possibly from the Legal Division to San Francisco to discuss the matter with the officers of the Federal Reserve bank so that the Board would be prepared to consider the matter if an application should be filed.

At Mr. McKee's request Mr. Wyatt related for the information of the members of the Board the substance of a telephone conversation which he had with Mr. Collins, attorney for the Bank of America, when the latter called this morning. A copy of a memorandum written by Mr. Wyatt covering the conversation has been placed in the Board's files.

In connection with an inquiry whether there was anything in the nature of a program being worked out that would result in the

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termination of the present controversies, Mr. McKee stated that the Division of Examinations and Counsel's office had been going over the report of examination and other information received from the Comptroller's office and that it was his hope that a possible program could be presented to the Board for consideration at the meeting on Friday, January 19, 1940.

There was a discussion of the question raised by Mr. McKee as to the advisability of sending someone from the Division of Examinations and possibly the Legal Division to San Francisco and the further suggestion was made that it might be a more satisfactory arrangement to have Mr. Clerk come to Washington.

During the consideration of this suggestion Chairman Eccles joined the meeting and stated that his secretary was advised today by the Secretary to Mr. Bell, Under Secretary of the Treasury, that another meeting with respect to the Bank of America would be held in Mr. Bell's office tomorrow morning at 10:30 a.m. and that Messrs. Eccles and McKee were invited to be present.

It was agreed unanimously that Messrs. Eccles, McKee, Morrill, and Dreibelbis should attend the meeting and that a decision on the question whether Mr. Clerk should be asked to come to Washington should be deferred until following the meeting at the Treasury.

At this point Messrs. Wyatt, Paulger and Dreibelbis left the meeting and the action stated with respect to each of the matters

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hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 15, 1940, were approved unanimously.

Letter to the board of directors of "The First Trust & Savings Bank of Canton", Canton, Ohio, stating that, subject to conditions of membership numbered 1 to 6 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:

- "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 \$2,400, as shown in the report of examination of such bank as of December 4, 1939, made by an examiner for the Federal Reserve Bank of Cleveland."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The First Trust & Savings Bank of Canton', Canton, Ohio, 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 Banks for the State

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"of Ohio for his information.

"Since it is understood that in the State of Ohio trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, of course, in accordance with the general authorization previously granted by the Board with which you are familiar, to waive compliance with condition of membership numbered 6 until further notice."

Letter to Mr. John Nichols, Chief, Division of Examinations, Federal Deposit Insurance Corporation, reading as follows:

"It is understood that arrangements are nearing completion for the assumption of the deposit liabilities of the Mount Pleasant Bank and Trust Company, Pleasantville, New York, by the First National Bank of Pleasantville, and that examiners for your Corporation are ready to make an examination of the assets of the State bank in connection with the segregation of the assets between those to be taken over by the national bank and those to be held as collateral to the loan by your Corporation.

"The Board of Governors of the Federal Reserve System hereby grants written consent, in accordance with the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the Mount Pleasant Bank and Trust Company in connection with the proposed program."

Approved unanimously.

Telegram to Mr. Young, Chairman of the Federal Reserve Bank of New York, reading as follows:

"Board extends to February 18, 1940, the time within which general voting permit may be issued to Marine Midland Corporation pursuant to authorization contained in Board's telegram of December 20, 1939."

Approved unanimously.

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Thereupon the meeting adjourned.

Robert Moriel
Secretary.

Approved:

W. Scales
Chairman.