A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, August 26, 1940, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. Davis  
Mr. Draper  

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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 23, 1940, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 24, 1940, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated August 14, 1940, from Mr. Ransom requesting approval by the Board of an increase in the salary of his secretary, Mrs. Anne I. Cotten, to the rate of $3,600 per annum, effective September 1, 1940.

Approved unanimously.

At the request of Mr. Davis, the salary of his secretary, Miss Carol S. Piper, was increased to the rate of $3,600 per annum, effective September 1, 1940.
At the request of Mr. Draper, the salary of his secretary, Miss Margaret J. Rauber, was increased to the rate of $3,600 per annum, effective September 1, 1940.

Memorandum from Mr. Nelson, Assistant Secretary, submitting the resignation of Frederick H. Huber as a stenographer in the Secretary's Office, effective as of the close of business on August 25, 1940, and recommending that the resignation be accepted as of that date.

Approved unanimously.

Letter to the board of directors of the "Old Farmers & Merchants State Bank," Hillsdale, Illinois, 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 Chicago:

"4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating $5,790.91, as shown in the report of examination of such bank as of June 24, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

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 'Old Farmers & Merchants State Bank', Hillsdale, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"It has been noted that the bank is receiving deposits from various individuals through agents operating a currency exchange at Erie, Illinois. It is understood that you are satisfied that the operation of such currency exchange is not in contravention of State laws and that the currency exchange does not constitute a branch within the meaning of the term 'branch' as it is used in Section 9 of the Federal Reserve Act. However, if there should be any change in the relationships between the bank and the currency exchange, the question as to whether a branch is being operated would be one for further consideration, and it is suggested that the matter be followed closely.

"It is understood that the president of the bank has agreed not to pay any dividends except with the approval of the State banking authorities and the Federal Reserve Bank. The bank's capital position cannot be regarded as satisfactory, particularly in view of the relatively large amount of old work-out real estate loans. In view of the highly liquid position of the bank and the recommendation of the Reserve Bank, however, the application has been approved with the understanding that the Reserve Bank will follow the capital situation closely and see to it that earnings are conserved until the capital account has been increased at least $15,000. It will also be expected that if the capital account is not built up promptly enough and in sufficient amount through conservation of earnings, or if there is such a change in the character of the assets as to increase materially the amount of assets subject to normal banking risk, appropriate action will be taken to obtain an increase from other sources, as required under the provisions of condition of membership numbered 2. It is requested that the bank be advised of this position.

"It is expected, also, that the Reserve Bank will exercise close supervision over the bank to insure, if possible, a successful working out of its problem lines."
Letter to the board of directors of "The Battle Ground State Bank", Battle Ground, Indiana, 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 Chicago:

"4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $493.83, as shown in the report of examination of such bank as of August 31, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

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 Battle Ground State Bank', Battle Ground, Indiana, 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 Director, Department of Financial Institutions, for the State of Indiana for his information.

"It is assumed of course that the Reserve Bank will follow to a conclusion the matter of the bank's taking the necessary steps to provide adequate attention to operating details and accounting system, which the president of the bank apparently left the impression would be done. It has been noted in this connection that your examiner feels that the employment of a capable assistant to the cashier will be necessary before any material improvement can be expected.

"The papers submitted with the application did not include copies of the form of 'A' debentures held by the Reconstruction Finance Corporation or of the form of 'B' debentures held by President Garrott, and it will be appreciated if you will forward such copies to the Board for its records."
Letter to the board of directors of "The Farmers & Merchants State Bank", Logansport, Indiana, stating that, subject to conditions of membership numbered 1 to 6 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 Chicago:

"7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $10,367.23, as shown in the report of examination of such bank as of July 20, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"It has been noted that the bank has outstanding common capital stock of $100,000, which is in excess of the figure at which the stock is shown on the books of the bank. In this connection, the Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock to be shown at its par value. Such adjustments may be effected through conservation of earnings of the bank, through reduction of its outstanding common capital stock, if and when such a reduction may be accomplished under the applicable provisions of State law, or through such other means as may be within the power of the bank.

"Apparently the operations of the trust department have not been properly organized and it was reported that a satisfactory examination of the department could not be made because of inadequate and incomplete records. Acceptance of trust business entails serious responsibilities and if The Farmers & Merchants State Bank intends to continue to hold itself out as being qualified to handle the business, as a member bank it will be expected to take the necessary steps to give the trust department adequate and efficient supervision and bring the 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 Farmers & Merchants State Bank', Logansport, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"You are familiar, of course, with the fact that stock of the Federal Reserve Bank should be issued to the applicant on the basis of capital of $199,500, the aggregate par value of outstanding common stock and face amount of the debentures held by the Reconstruction Finance Corporation, but excluding the debentures held locally.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, 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.

"The extent to which the president and cashier have used the credit facilities of the bank for their own purposes and the fact that a substantial amount of their obligations and obligations of their interests have either been charged off or were classified as estimated losses in the report of examination for membership, reflects seriously on the management; so seriously, in fact, as to raise a grave question whether the application should be approved. The Board, however, has approved the application in view of the recommendation of the Reserve Bank and the position of the State Banking Department as reported in Mr. Dierck's letter of August 16. According to the letter the State Banking Department regards the unsatisfactory condition of the loans to the president and the cashier and their interests as the most serious criticism of the bank, has approved the program for payments on such indebtedness, and feels that the bank will remain in a sound condition under the direction of President Raub."
"It will be expected that the Reserve Bank will follow this situation closely to see that this embarrassing situation is cleared up as rapidly as possible. Please keep the Board advised as to developments in this connection."

Letter to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of August 21, 1940, relating to the classification of member banks for the forthcoming election of Class A and Class B Directors of your Bank.

"It is noted from your letter that the classification made in 1935 appears to be satisfactory and that you have no changes to suggest. In the circumstances, the Board does not contemplate making any changes this year in the classification of member banks in your District for electoral purposes."

Approved unanimously.

Letter to Mr. G. M. Thornett, Secretary, Board of Commissioners, Government of the District of Columbia, reading as follows:

"The Board of Governors appreciates the courtesy extended by the Board of Commissioners of the District of Columbia through your letter of August 23 of arranging for a hearing on Tuesday, September 10, 1940, at 11:00 a.m., in the office of Commissioner Hazen, Room 504, District Building, regarding the taxable status of the Board's building.

"The Board will arrange to be represented by its General Counsel and an Assistant General Counsel and, in addition, Mr. Ronald Ransom, Vice Chairman of the Board, will also arrange to be present."

Approved unanimously.
Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Donald F. Maclean
Vice Chairman.