

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 18, 1940, at 2:30 p.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, 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 September 17, 1940, were approved unanimously.

Letter to the board of directors of the "South Boston Bank and Trust Company", South Boston, Virginia, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, 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 Richmond.

The letter also contained the following special comments:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary

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"under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership.

"It is reported that adequate attention is not being given to the operating details and accounting system of the bank, and to the maintenance of adequate internal safeguards. The application for membership has been approved with the understanding that steps will be taken promptly to correct the criticized matters and that there will be no cause for criticism in this connection in the future."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'South Boston Bank and Trust Company', South Boston, Virginia, 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 Commissioner of Banking for the Commonwealth of Virginia for his information.

"In connection with the application for membership the supervising examiner for the Federal Deposit Insurance Corporation advised the Federal Reserve Bank that the capital of the applicant bank has for the past four years been less than the amount needed to provide a 1 to 10 ratio of capital to deposits, that the deficiency amounted to \$38,000 on the date of the latest examination by his examiners, and that his office and the State authorities have repeatedly urged the bank to provide additional capital but without success.

"The report of examination for membership shows an increase of nearly \$10,000 in both book and adjusted capital since the F.D.I.C. examination in June 1939, with no material increase in deposits. Since the bank is reported to be in good asset condition and has a relatively

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"small amount invested in fixed assets, and no other real estate or potential other real estate, an increase in capital has not been required as a condition of membership. However, under the provisions of standard condition of membership numbered 2 the bank will be expected to follow a conservative dividend policy in order that its earnings may be devoted largely if not entirely to strengthening the capital. The condition is, of course, a continuing condition and if an adequate capital cannot be built up and maintained from earnings, the sale of additional stock will then be expected.

"The Federal Reserve Bank will, of course, see to it that the criticized matters in connection with the operating details and accounting system of the bank are corrected and it is requested that a report be made to the Board when such corrections have been effected. It is suggested in this connection that it might be well if someone from the Reserve Bank would go to the bank and assist the management and employees in making the needed improvements.

"It is assumed that your office will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulation the savings accounts referred to on page 16 of the report of examination for membership, and the matter of formally designating a trust officer and appointing a trust committee."

Mr. Morrill suggested that the Board authorize the payment of the cost of luncheons served to Mr. Anderson, of the architectural firm of York and Sawyer, and Mr. Klee, of the engineering firm of Myer, Strong and Jones, both of New York, New York, in the Board's dining room today.

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Donald J. Pearson  
Vice Chairman.