

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 15, 1940, at 11:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 November 14, 1940, were approved unanimously.

Telegrams to Messrs. Sanford and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. West, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 12, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, St. Louis,

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Minneapolis, and Dallas on November 14, 1940, and by the Federal Reserve Banks of Philadelphia and Kansas City today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Leedy, Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of November 4, 1940, the Board of Governors approves payment of salary to Mr. H. L. Stempel, Assistant Cashier, Denver Branch, for the period December 1, 1940 to December 31, 1940, at the rate of \$3,600 per annum. The Board also approves payment of salary to Mr. Stempel at the above-mentioned rate for the period January 1, 1941 to May 31, 1941, if fixed by your Board of Directors at such rate."

Approved unanimously.

Letter to the board of directors of "The Springdale Bank and Trust Company", Springdale, Connecticut, 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 New York:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,590, as shown in the report of examination of such bank as of September 7, 1940, made by an examiner for the Federal Reserve Bank of New York."

The letter also contained the following special comment:

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"It appears that the bank possesses authority to exercise fiduciary powers but that it has exercised such powers only to a very limited extent in the past and was not doing so when it filed its application and was examined for membership. The application has been approved on the basis that the bank is not exercising fiduciary powers and attention is called to the fact that under the provisions of condition of membership numbered 1, it will be necessary for the bank to obtain the Board's permission before exercising such powers in the future."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Springdale Bank and Trust Company', Springdale, Connecticut, 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 Connecticut for his information.

"It appears that the bank possesses authority to exercise fiduciary powers and has exercised such powers to some extent in the past. However, when it filed its application and was examined for membership, the bank was handling no fiduciary business and its previous business appears to have been limited to a few small accounts. Apparently the bank has not equipped itself to handle fiduciary business generally and the possibilities of future business seem quite limited. Your bank recommended that the standard trust conditions be prescribed but in a discussion with Mr. Gidney it was agreed that, in view of the circumstances recited above, the application might be approved on the basis that the bank is not exercising fiduciary powers and, accordingly, the conditions have not been prescribed. You will note that the Board's letter to the applicant advises it that, under the provisions of condition of membership numbered 1, it will be necessary for it to obtain the Board's permission before exercising fiduciary powers in the future.

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"It is assumed, of course, that your office will follow the matter of the bank's reducing to within statutory limits the excessive balance with a nonmember bank, and the matter of bringing the savings accounts listed on page 16(a) of the report of examination for membership into conformity with the provisions of law and the Board's regulations."

Letter to the board of directors of the "State Bank of Remington, (Incorporated)", Remington, Virginia, stating that, subject to conditions of membership numbered 1 to 3 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 comment:

"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 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 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."

Approved unanimously for transmission through the Federal Reserve Bank of Richmond.

Letter to the board of directors of the "Security State Bank", Sheldon, Iowa, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves

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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.

Approved unanimously for transmission through the Federal Reserve Bank of Chicago.

Letter to the board of directors of "The Citizens State Bank of Ontonagon", Ontonagon, Michigan, stating that, subject to conditions of membership numbered 1 to 3 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 Minneapolis.

Approved unanimously for transmission through the Federal Reserve Bank of Minneapolis.

Letter to the board of directors of the "Merchants Bank of Winona", Winona, Minnesota, 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 Minneapolis.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Merchants Bank of Winona', Winona, Minnesota, for membership in the Federal

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"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 Banks for the State of Minnesota, for his information.

"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 regulations the savings accounts listed on page 16(1) of the report of examination for membership.

"It has been noted that in connection with the approval in December 1939 of the retirement of \$25,000 of the capital debentures outstanding, it was agreed with the Federal Deposit Insurance Corporation that surplus would be increased by the amount of the retirement and that when a subsequent retirement of \$25,000 is made a dividend of \$50,000 payable in common stock will be declared. It is assumed, of course, that you expect to see that the understanding with the Federal Deposit Insurance Corporation in this respect is carried out."

Letter to Mr. West, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of October 15, 1940, raising certain questions regarding the report of examination of Union Bond & Mortgage Company, Port Angeles, Washington, as of June 29, 1940, made by an examiner for your bank.

"You requested the Board's comments as to whether the assets of Union Bond & Mortgage Company which are claimed by it to satisfy the requirements of section 5144 of the Revised Statutes, with respect to readily marketable assets, may be so regarded. The assets consist of stock of Elwha Theatre Company and Leader Department Store, Inc., small local corporations, the former owning the stock of a corporation which operates the moving picture theatres in Port Angeles and the latter operating a department store in that town. All of the stock of Leader Department Store, Inc. and half of the stock of Elwha Theatre Company is owned by Union

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"Bond & Mortgage Company. The examiner states that it would be extremely difficult to accurately appraise the sales value of the stocks and that it is recognized that they do not have a broad market. It appears that, in support of its position that the assets are readily marketable, it is claimed by Union Bond & Mortgage Company that, in view of the good earnings shown and the fact that the company controls the moving picture possibilities in the town, the stock of Elwha Theatre Company could be easily sold to persons who would be interested in gaining control of the local situation, and it is stated that the Leader Department Store is the only locally owned store of its type and that it possesses a favorable lease and shows good earnings.

"In its ruling published in the Federal Reserve Bulletin for March 1938 at page 192 (based upon its letter of February 4, 1938 to your bank concerning an inquiry from Union Bond & Mortgage Company), the Board stated that, in determining whether assets are readily marketable within the meaning of section 5144, it should be borne in mind that -

'the law apparently contemplates that the assets shall be of such a nature that their fair market value can be easily ascertained with reasonable accuracy and can be readily realized in the market at any time in order to pay assessments on bank stocks or to assist subsidiary banks through voluntary contributions.'

"Thus, an asset does not satisfy the statutory requirements merely because it is considered sound and desirable and it is believed that a purchaser at some price could be found if an effort were made. Accordingly, upon the basis of the facts presented, the Board does not consider that the stocks of Elwha Theatre Company or Leader Department Store, Inc. satisfy such requirements and, unless you have additional pertinent facts which might lead to a contrary view, please advise Union Bond & Mortgage Company accordingly.

"According to the information in the report of examination, the holding company affiliate has invested in the stock of the Leader Department Store, Inc., over ten per cent of its total assets (book value). In consideration of the granting of the general voting permit held by Union Bond & Mortgage Company, the corporation agreed, among other things, 'that, except with the permission of the Board of Governors of the Federal Reserve System, it shall

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"not cause or permit any change to be made in the general character of its business or investments'. Investment by the corporation of so large a portion of its assets, other than bank stocks, in control of a department store, without first having requested or obtained the permission of the Board, is regarded as a violation of the quoted provision of the agreement, and it is requested that you so inform the holding company affiliate.

"The report of examination indicates that the stock of the Leader Department Store, Inc., has been shown as 'Investment Q' on the books of the holding company affiliate and that it was so designated because it was felt desirable to conceal the ownership of the local store by interests close to the subsidiary bank. The full extent to which the concealment is carried is not definitely disclosed in the report of examination and a question arises as to whether the holding company affiliate is unduly concealing the nature of its activities from its own shareholders. It is noted also that the company's investment of \$10,000 in the department store as of December 31, 1939, was concealed by use of the caption 'Investment Q' in the corporation's annual report to the Board for 1939. It is requested that you inform the Union Bond & Mortgage Company that, so long as it is subject to the voting permit law and agreements, for the administration of which the Board is responsible, the Board expects that full and accurate information regarding the corporation's assets and operations will be set forth in its books and records and in its annual reports to the Board, and that fictitious captions will not be substituted for the names of organizations whose securities are held by the corporation.

"It will be appreciated if you will keep us informed as to any further developments in connection with the foregoing matters.

"You requested also the Board's views as to the propriety of supplying the holding company affiliate and its directors certain information with respect to the condition and operations of the two banks which are affiliated with the holding company affiliate but which are not subsidiary banks. Data concerning the holding company affiliate and subsidiary and other affiliated banks, and other affiliated organizations, obtained by an examination of the holding company affiliate itself should be contained in the open section of the report of examination of the holding company affiliate. Of course, any information so obtained which is of a confidential nature, including such information as

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"is ordinarily contained in the confidential section of a report of examination of a bank, should be set out only in the confidential section of the report of examination of the holding company affiliate. Data taken from reports of examination of banks or other affiliated organizations, and data derived from the contents of such reports of examinations, to the extent considered necessary in reviewing the financial condition and operations of the holding company affiliate and its relationships with other organizations, should be included in the confidential section only. In no case should the contents of a report of examination of a bank be quoted verbatim or paraphrased in such manner as to result in any embarrassment to the examiner or the supervisory authority responsible for such report."

Approved unanimously.

Thereupon the meeting adjourned.

Chesler Morris
Secretary.

Approved:

W. S. ...
Chairman.