

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 19, 1940, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 18, 1940, were approved unanimously.

Memorandum dated November 18, 1940, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated November 15, from Mr. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, requesting approval by the Board of changes in the personnel classification plan of the Philadelphia Bank to provide for the creation of the new position of "Bank Ledger Supervisor" in the Accounting Department; the elimination of the positions of "Head of Department" and "Assistant Head of Department" in the Bank Ledger Department; a change in the description of work for the position of "Head of Department" in the Accounting Department; and, four

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other proposed changes which involved only the transfer of positions from the Bank Ledger Department to the Accounting Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

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

"Relet November 15. Board approves designations of the fifteen employees listed as special assistant examiners, with the understanding, of course, that they will not be transferred permanently to examining work without the Board's approval."

Approved unanimously.

Letter to the board of directors of the "American Trust & Savings Bank", Dubuque, Iowa, 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 \$1,930, as shown in the report of examination of such bank as of October 15, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comment:

"Apparently the operations of the trust department

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"have not been well organized, the records are said to be inadequate and incomplete, and it was reported that a satisfactory examination of the department could not be made because of the absence from the bank during the examination of the trust officer, who has complete control of the trust assets. Acceptance of trust business entails serious responsibilities and if the American Trust & Savings 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 'American Trust & Savings Bank', Dubuque, Iowa, 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 Banking for the State of Iowa for his information.

"The capital account appears to be unbalanced -- and now unnecessarily so -- with common capital stock of only \$50,000 and two classes of preferred stock \$50,000 Class A and \$150,000 Class B. This also results in relatively high fixed dividend requirements since the cumulative rates on the two classes of preferred stock are 5 per cent and 6 per cent, respectively. In addition to the 6 per cent cumulative dividends, the Class B stock also participates pro rata with the common stock in cash dividends which may be declared on the latter. In view of the substantial growth of the bank and the fact that local interests have purchased the Class A stock from the Reconstruction Finance Corporation, it would seem to be desirable that the capital structure be simplified and the

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"Common stock increased to an amount more appropriate to the size of the bank and the change in its status from that of a savings bank in one end of the city to a downtown bank rendering a comprehensive banking service. Such a capital readjustment program would seem to be more easily accomplished in view of the fact that the stock is rather closely held and the various classes of stock are held largely by the same interests. It is requested, therefore, that you make the matter the subject of specific discussion with the management of the bank and advise the Board as to the results attained.

"It has been noted that your office intends to satisfy itself that the bank's trust department is in a satisfactory condition before the bank is admitted to membership. It is assumed that the Reserve Bank will also endeavor to see to it that the bank follows a conservative dividend policy in view of the continued increase in deposits and that improvement in the quality of the investment account will be continued.

"A letter to Dubuque Fire and Marine Insurance Company, Dubuque, Iowa, relating to its status as a holding company affiliate upon the admission of American Trust & Savings Bank to membership, is enclosed and is to be transmitted to that organization. Two copies of the letter are also enclosed, one of which is for your files and the other is for transmittal to American Trust & Savings Bank."

In connection with the above matter, the following letter to the Dubuque Fire and Marine Insurance Company, Dubuque, Iowa, was approved unanimously:

"This refers to the Board's approval on this date of the application of American Trust & Savings Bank, Dubuque, Iowa, for stock in the Federal Reserve Bank of Chicago, subject to certain conditions, and to the status of your organization as a holding company affiliate upon American Trust & Savings Bank's becoming a member bank.

"The Board understands that your organization is an insurance company engaged in writing fire, automobile and related types of insurance; that American Trust & Savings Bank has outstanding 500 shares of preferred stock 'A', 1,500 shares of preferred stock 'B' and 500 shares of

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"common stock; that your organization owns 107 shares of the preferred stock 'A', 1,066 shares of the preferred stock 'B' and 100 shares of the common stock of such bank; and that it does not own or control a significant portion of the stock of, or manage or control, any bank, banking association, savings bank or trust company, other than American Trust & Savings Bank.

"On this basis, upon American Trust & Savings Bank's becoming a member bank, your organization clearly will become a holding company affiliate of it within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization--

'(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank
* * * '

"However, in view of the facts above recited, the Board has determined that your organization is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) * * * any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"As a result of such determination, your organization will not be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. However, the Board reserves the right to make a further determination at any time on the basis of the then

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"existing facts and, if there should be such a change in the facts as to indicate that your organization might be deemed to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, this matter should again be submitted to the Board."

Memorandum dated November 15, 1940, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the December issue of the Federal Reserve Bulletin a brief summary of laws prepared by the Legal Division under the title, "Compilation of State Law Requirements Relating to Capital of Banks, Trust Companies, etc."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.