

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, January 11, 1941, at 10:40 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Paulger, Chief of the Division of Examinations
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Cagle, Assistant Chief of the Division of Examinations
Mr. Wingfield, Assistant General Counsel
Mr. Baumann, Assistant General Counsel

Mr. McKee stated that under date of October 17, 1940, an application for a general voting permit was filed by the First Securities Corporation of Syracuse, Syracuse, New York, for permission to vote the stock owned or controlled by it in The First National Bank of Canastota, Canastota, New York, and The First National Bank of Waterloo, Waterloo, New York, as well as in the Liverpool Bank, Liverpool, New York, the Citizens Bank of Clyde, Clyde, New York, and The State Bank of Parish, Parish, New York, which were applying for membership in the Federal Reserve System, and that, while it was the policy of the Board to avoid the issuance of limited voting permits, other than in exceptional cases, he felt this was an exceptional case which would justify such action. He said that the holding company was closely associated, but not technically affiliated, with the First Trust and Deposit Company of

1/11/41

-2-

Syracuse, New York; that, while the management of the subsidiary banks was in the hands of local officers and directors, their policies, in effect, were directed by the management of the Trust Company through officers of the holding company affiliate; that in connection with the rehabilitation of the First Trust and Deposit Company in April, 1940, the Federal Deposit Insurance Corporation made a deficiency loan of approximately \$23,500,000 to the Trust Company and the Baldwinsville State Bank which institution the Trust Company absorbed, and the Reconstruction Finance Corporation purchased \$5,500,000 of new preferred stock in the Trust Company; and that most of the holding company's assets were pledged to the Federal Deposit Insurance Corporation on its notes taken out of the First Trust and Deposit Company in connection with the rehabilitation leaving the holding company with little financial strength. Mr. McKee added that the two national banks were in fair condition and that the condition of the three State banks was fair or good, but that the management of the Trust Company, which was the key bank and apparently dominated the group, was not satisfactory to the Reconstruction Finance Corporation or the Federal Deposit Insurance Corporation, and that for that and other reasons set forth in a memorandum prepared by the Division of Examinations in connection with the case under date of January 4, 1941, he felt that the issuance of a general voting permit should be deferred until the question of management could be worked out. He made the further statement

1/11/41

-3-

that it appeared that the issuance of a limited voting permit was desirable not only for the purpose of the annual meeting of the national banks but also to make certain desirable amendments to the articles of association of The First National Bank of Canastota.

In connection with the applications for membership which had been filed by the three State banks affiliated with the First Securities Corporation of Syracuse, Mr. McKee pointed out that the Board's Regulation P provides that the Board, in its discretion, would either (a) require the holding company affiliate to comply with all conditions precedent to the issuance of a general voting permit prior to admitting the bank to membership, or (b) admit the bank to membership subject to the condition that the holding company obtain a general voting permit within a reasonable time. It had been the policy of the Board to prescribe the former condition but Mr. McKee stated that if the granting of the general voting permit were deferred in this case, it might be necessary to issue a limited voting permit to the holding company authorizing it to vote the stock in the three State banks for stated purposes unless the question of management were cleared up in the meantime. Mr. McKee added, however, that such a permit would not be necessary in connection with the banks next annual meetings for the reason that if their applications were approved they could not complete membership before the date of such meetings.

Thereupon, upon motion by Mr. McKee, unanimous approval was given to a telegram to Mr. Ruml, Federal Reserve Agent at the

1/11/41

-4-

Federal Reserve Bank of New York, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "First Securities Corporation of Syracuse", Syracuse, New York, entitling such organization to vote the stock which it owns or controls of "The First National Bank of Canastota", Canastota, New York, and "The First National Bank of Waterloo", Waterloo, New York, at any time prior to April 1, 1941, (1) to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks, and (2) to amend the articles of association of the First National Bank of Canastota in a manner satisfactory to the Comptroller of the Currency. The telegram also stated that comments concerning deferment of the issuance of a general voting permit and other matters, not affecting the issuance of the limited permit would be contained in a letter to be sent to Mr. Sproul, President of the Federal Reserve Bank of New York.

Unanimous approval was also given to letters to the three State banks referred to above as follows:

Letter to the board of directors of "The State Bank of Parish", Parish, New York, stating that, subject to conditions of membership numbered 1 to 3, inclusive, 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 \$5,661, as shown in the report of examination of such bank as of November 20, 1940,

1/11/41

-5-

"made by an examiner for the Federal Reserve Bank of New York."

Letter to the board of directors of the "Liverpool Bank", Liverpool, New York, stating that, subject to conditions of membership numbered 1 to 3, inclusive, 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 \$743.00, as shown in the report of examination of such bank as of November 26, 1940, made by an examiner for the Federal Reserve Bank of New York."

Letter to the board of directors of the "Citizens Bank of Clyde", Clyde, New York, stating that, subject to conditions of membership numbered 1 to 3, inclusive, 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 New York.

Letters to Mr. Sproul, President of the Federal Reserve Bank of New York, transmitting the three letters to the member banks, were also approved unanimously, the letter with respect to The State Bank of Parish, Parish, New York, stating that it was assumed that copies of the documents relating to the change in the number of directors of the bank, referred to in the certificate of counsel for the bank concerning the application, would be obtained and forwarded to the Board to complete its files, and the letter with respect to the Citizens Bank of Clyde, Clyde, New York, stating that since the amount of estimated losses shown in the report of examination for

1/11/41

-6-

membership was relatively small, the usual condition of membership requiring the elimination of losses would not be prescribed, but it was assumed that proper provision for losses would be made as a matter of sound banking practice.

The letter to Mr. Sproul, referred to in the telegram to Mr. Ruml, read as follows:

"This refers to the Board's approval of the membership applications of 'The State Bank of Parish', Parish, New York, 'Liverpool Bank', Liverpool, New York, and 'Citizens Bank of Clyde', Clyde, New York, and the Board's authorization of the issuance of a limited voting permit entitling First Securities Corporation of Syracuse, Syracuse, New York, to vote the stock which it owns or controls of 'The First National Bank of Canastota', Canastota, New York, and 'The First National Bank of Waterloo', Waterloo, New York.

"First Securities Corporation of Syracuse will become a holding company affiliate of the three State banks named above upon their admission to membership and has applied for a voting permit authorizing it to vote the stock which it owns or controls of such banks, as well as that of the two national banks. Regulation P provides that, in connection with the admission to membership of a bank which thereupon will have a holding company affiliate, the Board at its discretion, will either require that the holding company affiliate comply with all conditions to the granting of a general voting permit prior to the admission of the bank to membership or admit the bank to membership subject to the condition that the holding company affiliate obtain a general voting permit within a reasonable time.

"However, the Board does not feel that the issuance of a general voting permit to the First Securities Corporation of Syracuse is warranted at this time, since (1) the management of the corporation is closely associated with the management of First Trust and Deposit Company which has been subject to criticisms of such nature as might eventually lead to changes, (2) the corporation has stated that its major objective is to sell enough of its banks to retire its bills payable and to that extent, at least, is in liquidation, and (3) the corporation has incurred

1/11/41

-7-

"heavy losses and does not have prospects of materially improving its financial position. Moreover, it does not seem likely that, at best, the issuance of such a permit will be in order for a considerable period of time.

"In view of these circumstances, and the fact that the other banks in the First Securities Corporation group are members of the Federal Reserve System and it is believed to be in the best interest of the banks at Parish, Liverpool and Clyde also to be in the System, the Board has made an exception to its usual policy, approving the membership applications without conditions relative to First Securities Corporation of Syracuse obtaining a general voting permit.

"The Board has authorized the issuance of a limited permit covering the two national banks in order that a majority of their shares of stock may be voted this year in connection with the election of directors and action desired by the Comptroller of the Currency with respect to the amendment of the articles of association of one of the banks. The three State banks were not covered because in all probability their annual meetings will have been held prior to their admission to membership.

"However, prior to the admission of the State banks to membership, First Securities Corporation of Syracuse should understand that it is not the Board's general policy to continue the granting of limited permits to a holding company affiliate indefinitely; that the admission of such banks and the authorization of the issuance of the limited permit covering the national banks should not be considered an assurance that the Board will, in this instance, continue to issue limited permits until such time as the issuance of a general permit may be in order; and that the determination as to whether additional permits, limited or general, will be authorized, will depend upon future developments with respect to the general character of the applicant's management, its financial condition, and its relationships with its subsidiary banks.

"In considering the voting permit application of First Securities Corporation of Syracuse, it has been noted that the examiner for your bank stated that the corporation's reports to shareholders consist of a published statement of condition and an informal review of its affairs by its president, and that there was submitted as a part of the application, presumably in response to a request for a copy of the corporation's latest annual

1/11/41

-8-

"report to its shareholders, a printed folder containing a statement of assets and liabilities of the applicant as of December 30, 1939. In several particulars such statement was not in sufficient detail and possibly was misleading, especially with reference to (1) the statement of net worth, under the caption 'capital and surplus', which did not indicate the existence of a large deficit and (2) failure to disclose which assets, or even that any assets, were pledged to secure notes payable. The President's informal review of the corporation's affairs may have amplified and clarified the information contained in the statement but such additional information apparently would not be readily available to shareholders not present at the annual meeting. The corporation should be advised that, in the discharge of its responsibilities with respect to the issuance of voting permits and the supervision of holding company affiliates, it has always been the Board's position that whatever statements holding company affiliates publish or furnish to their shareholders should be correct, reasonably complete and self-explanatory, and certainly should be so designed as to avoid misleading effects.

"Also, in order that we may have information regarding First Securities Corporation of Syracuse similar to that which is obtained from all other holding company affiliates to which voting permits have been issued, it is requested that a report for the year 1940 on Form F. R. 437 be obtained from the corporation."

Mr. McKee then referred to another case in which the question of a limited voting permit was involved. He stated that on July 23, 1940, Bank Shares Incorporated, Minneapolis, Minnesota, (which was organized on December 2, 1939, for the purpose) succeeded Bank Shares Corporation, A South Dakota corporation, and on October 22, 1940, filed an application for a general voting permit authorizing it to vote the stock owned or controlled by it in The Marquette National Bank of Minneapolis, and the University National Bank of Minneapolis,

1/11/41

-9-

both of Minneapolis, Minnesota; that a general voting permit was granted to the predecessor corporation on December 19, 1935, authorizing it to vote the stock of The Marquette National Bank of Minneapolis; that President Ralph W. Manuel continued to dominate the applicant and its subsidiaries; and that there had been no changes in the group since the 1939 annual report of Bank Shares Corporation except the incorporation changes in the holding company and the conversion of the University State Bank of Minneapolis, an insured non-member bank, into a national bank. However, Mr. McKee said, when the conversion of the corporation was effected, the approximately 35,000 shares of class A stock outstanding gave the holders equal voting rights with the class B stock when the accumulative dividends were three years in arrears; that the dividends were four years in arrears at the time of conversion and these accumulated dividends were accepted by the new corporation as a preference before dividends could be paid on class B stock; but that the holders of the new class A stock were not given voting rights unless accumulative dividends on that stock should again fall three years in arrears; and that it did not appear from information available to the Board that this point had been called specifically to the attention of the class A stockholders in connection with the proposal to convert the class A stock of the old corporation into the class A stock of Bank Shares Incorporated.

1/11/41

-10-

Mr. McKee added that aside from this feature in the conversion of the applicant holding company it would appear that the issuance of a general voting permit would be justified inasmuch as the holding company and its subsidiary banks were in satisfactory condition and the management was capable, but that in the circumstances he would like to suggest, with which suggestion Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, had expressed agreement, that the Board issue a temporary voting permit to Bank Shares Incorporated for the purpose of matters to be acted on at the annual meetings of the subsidiary banks and request Mr. Manuel to come to Washington to explain the reasons for the arrangement with respect to the class A stock as outlined above.

After a discussion, upon motion by Mr. McKee, unanimous approval was given to a telegram to Mr. Coffey, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to "Bank Shares Incorporated", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of "The Marquette National Bank of Minneapolis" and the "University National Bank of Minneapolis", both of Minneapolis, Minnesota, at any time prior to April 1, 1941, (1) to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks, and (2) to amend

1/11/41

-11-

the articles of association of The Marquette National Bank of Minneapolis in a manner satisfactory to the Comptroller of the Currency. The telegram also stated that, as indicated in Mr. McKee's recent telephone conversation with Mr. Peyton, action with respect to issuance of a general voting permit had been deferred pending discussion of the matter by Messrs. McKee and Manuel, the applicant's president, and that the Board did not wish to inconvenience Mr. Manuel but trusted that he would not delay arranging for a conference until the occasion for an additional permit arises.

At this point Messrs. Paulger, Leonard, Cagle, Wingfield, and Baumann left the meeting and the action stated with respect to each of the matters 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 10, 1941, were approved unanimously.

Letter to Mr. Sanford, Secretary of the Federal Reserve Bank of New York, reading as follows:

"This will acknowledge receipt of your letter of December 31, 1940, with reference to the statement your Board of Directors had before it on December 19, 1940, when it fixed the salaries of Mr. Sproul and Mr. Rounds, President and First Vice President, respectively, for the period January 1, 1941 to February 28, 1941, inclusive.

"Since the salaries of Mr. Sproul as President and Mr. Rounds as First Vice President have been fixed for the period of their present appointments, which end on February 28, 1941, the salaries of the President and First Vice President of your Bank will have to be reconsidered by the Board as of March 1, 1941.

1/11/41

-12-

"As you know, the Chairmen's Conference expects to submit a report to the Board shortly with respect to salaries of officers of the Federal Reserve Banks and the Board, as pointed out at the meeting of the Chairmen's Conference, will take the necessary time to consider fully the recommendations to be contained in that report before approving any extensive revisions in salaries of officers of the Federal Reserve Banks."

Approved unanimously.

Letter to the board of directors of "The West Side Bank", Bridgeport, 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 \$7,673, as shown in the report of examination of such bank as of October 10, 1940, made by an examiner for the Federal Reserve Bank of New York."

The letter also contained the following special comment:

"It appears that although the bank possesses authority to exercise fiduciary powers, on the date of examination for membership it was administering only a few trust accounts, and it is understood that the trust department is to be discontinued as soon as these accounts are closed out. The application has been approved on the same basis as if the bank were not exercising fiduciary powers and attention is called to the fact that, under the provisions of condition of membership numbered 1, if the bank should desire in the future to exercise such powers, other than to the extent necessary in connection with the accounts now being administered, it

1/11/41

-13-

"will be necessary for the bank to obtain the Board's permission to do so."

Approved unanimously, together with a letter to Mr. Sproul, 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 West Side Bank', Bridgeport, 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.

"On the date of examination for membership the bank was administering only a few trust accounts and it was reported that the trust department is to be discontinued as soon as these accounts are closed out. In the circumstances, the three standard trust conditions have not been prescribed but the Board's letter to the applicant advises that the application has been approved on the same basis as if the bank were not exercising fiduciary powers and if it should desire in the future to exercise such powers, other than to the extent necessary in connection with the accounts now being administered, application for permission to do so should be made to the Board in accordance with the provisions of condition of membership numbered 1. This procedure has been discussed with Mr. Gidney who agreed that it would be a satisfactory way of handling the matter.

"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(a) of the report of examination for membership."

Memorandum dated January 8, 1941, from Mr. Ransom, stating that, in accordance with the action taken by the Board on January 2, 1941, in connection with the application of the City National Bank of

1/11/41

-14-

Hastings, Hastings, Nebraska, for authority to exercise fiduciary powers, he had discussed with the Comptroller of the Currency the basis upon which the latter would recommend the granting of trust powers to national banks in the future and that the Comptroller of the Currency advised that, for reasons which he reviewed, the recommendation of his office in connection with the application of the City National Bank of Hastings did represent a change of policy, but that he would like to have Mr. Folger, Chief National Bank Examiner, discuss the matter in a preliminary way with a representative of the Board's staff with the view that ultimately the Comptroller could discuss the matter further with some member or members of the Board. The memorandum suggested that Mr. Cagle, Assistant Chief of the Division of Examinations, be asked to confer with Mr. Folger with the thought that after Messrs. Cagle and Folger had reported back to their respective offices, the Board could give further direction to the matter.

Approved unanimously.

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

"Reference is made to Mr. Caldwell's letter of December 17, 1940, with enclosures, relative to the question whether the Topeka Morris Plan Company, Topeka, Kansas, is a 'bank' within the meaning of Section 8 of the Clayton Act. There were submitted with Mr. Caldwell's letter copies of answers by the company to a questionnaire which

1/11/41

-15-

"Mr. Caldwell submitted, together with copies of the following forms of instruments used by the company: (1) full paid investment certificate; (2) installment investment certificate in the form of a pass book of the 'Thrift Department'; (3) 'Savings Department' deposit slip; and (4) receipt for money withdrawn. Mr. Caldwell stated that these were supplied in response to a request that he be furnished with information concerning the Topeka Morris Plan Company which appeared to be necessary for a determination of the question whether the company is a 'bank' within the meaning of Section 8 of the Clayton Act.

"From the information submitted, it appears that the company conducts certain banking operations, that it regards and treats as savings deposits various funds received by it, and that the general public regards the company as a bank. Accordingly, it is the opinion of the Board that the Topeka Morris Plan Company should be regarded as a 'bank' within the meaning of the Clayton Act.

"Of course, if the Board's understanding of the nature of the operations of the company and the manner in which they are generally regarded is not correct and there is any substantial basis for not considering that any of the funds received by the company are in the nature of bank deposits, either demand, time, or savings, the Board will be glad to consider the matter further. If further consideration of the question should be desired, it would be necessary for the company to submit a clear exposition of its operations with particular reference to the character of funds received by it from customers and its manner of receiving and crediting such funds and permitting withdrawals therefrom. It would also be necessary for this to be accompanied by a statement of your views and those of your counsel with respect to the nature of the company's operations and the status of the company under Kansas statutes."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of December 23, 1940 and enclosures giving in detail the basis for your

1/11/41

-16-

"opinion, in which your Counsel concurs, that you are not justified in concluding that Troy Prudential Association, Inc., is not a bank as that term is used in section 8 of the Clayton Act.

"On the basis of the information submitted the Board is of the opinion that Troy Prudential Association, Inc., is a 'bank' within the meaning of section 8 of the Clayton Act."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In order to provide a current statistical analysis of the reserve position of member banks, it will be appreciated if you will furnish the Board with the following data:

1. Summary statements in accordance with the attached form R-766a covering, respectively, (1) central reserve city banks (if any), (2) reserve city banks, (3) country banks in places with a population of 100,000 or more according to the 1940 census, (4) country banks in places with a population of 15,000 or more but less than 100,000, and (5) country banks in places with a population of less than 15,000. Banks in central reserve cities with permission to carry the same reserves as banks in reserve cities should be classified as reserve city banks, and banks in central reserve and reserve cities with permission to carry the same reserves as banks outside such cities should be classified as country banks. The enclosed mimeographed statements issued by the Bureau of the Census may be used in making the population grouping of country banks.

2. A supplementary statement showing the information called for by form R-766b, attached, covering (1) each member bank included in the first two percentage groups on form R-766a, and (2) each member bank not included in these two percentage groups but which on December 31, 1940

1/11/41

-17-

"reported 'due to' domestic banks amounting to more than one-third of 'due from' domestic banks.

"We should like to have the summary statements on form R-766a reach the Board's offices not later than Friday, January 31. Accordingly, it is suggested that any of them that cannot be forwarded by regular mail or air mail in time to reach the Board's offices on that date be telegraphed. If a statement is telegraphed the code words shown on form R-766a should be used to designate the various items of information called for by the form. The supplementary statements on form R-766b should be mailed in time to reach the Board's offices by February 3, if practicable. It will be observed from the instructions appearing on form R-766a that reports of deposits for the semi-monthly period ended December 15, 1940 may be used in lieu of reports for the semi-monthly period ended January 15, 1941, in so far as that may be necessary to insure our receipt of the summary data on time. It is highly desirable, however, that the number of banks for which such substitutions are made be kept at a minimum. Accordingly, special efforts should be made to obtain a current report of deposits from every member bank.

"A supply of forms R-766a and R-766b, for your use in furnishing the Board with the desired data, is being sent to you under separate cover."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Donald Hanson
Vice Chairman.