

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 4, 1941, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
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 hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 3, 1941, were approved unanimously.

Memorandum from Mr. Nelson, Assistant Secretary, submitting the resignation of Stanley J. Czoper as a guard in the Building Operation and Maintenance Section of the Secretary's Office, effective as of the close of business on January 31, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to the board of directors of the "Chesterton State Bank", Chesterton, Indiana, stating that, subject to conditions of membership numbered 1 to 6, 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

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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 \$749.18, as shown in the report of examination of such bank as of December 24, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comment:

"It has been noted that the bank has outstanding common capital stock of \$50,000, 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."

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 'Chesterton State Bank', Chesterton, 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.

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

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"authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice.

"The bank has been faced with severe problems and suffered heavy losses in the past. According to the information submitted, however, substantial improvements have been effected and the Reserve Bank has expressed the opinion that if the bank's present policies are continued there appears to be no reason why it would not make a satisfactory member of the Federal Reserve System. The application has been approved with the understanding that the Reserve Bank will follow the situation closely and take such supervisory steps as may be appropriate to see that such expectations materialize."

Memorandum dated February 3, 1941, from Mr. Solomon, Assistant Counsel, recommending with the concurrence of Mr. Parry, Chief of the Division of Security Loans, that in the reprinting of Regulation U to incorporate amendment No. 4 approved by the Board on January 16, 1941 to become effective February 17, 1941, the footnotes in the Regulation indicating earlier amendments be omitted and that the following additional changes be made, all of which would leave the body of the Regulation unchanged:

"1. Strike out the second paragraph of the 'Explanatory Foreword', which is printed with the regulation but is expressly stated not to be a part of it. It is believed that this paragraph has served its purpose and that while it does not actually conflict with the material added by amendment No. 4, it might tend to cause some confusion if retained.

"2. Add the following footnote to the second paragraph of section 1 of the Regulation, indicating it by an asterisk (*) after the clause that ends with a semicolon and also by another at the end of the paragraph:

'*In applying this provision, especially when the borrower is a broker or dealer in securities, see particularly sections 3(m), (n), and (o), which were added by amendment effective February 17, 1941.'

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"3. Add asterisks at the beginning of subsections (m), (n), and (o) of section 3, to indicate the following footnote:

'*Added by amendment effective February 17, 1941.'"

Approved unanimously.

Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of January 27 regarding the proposed plan of the Bank of Commerce, Clayton, Alabama, in connection with its retirements of preferred stock. You point out that the bank is not subject to a condition of membership which requires the Board's approval of reductions in capital, but state that both the State Department and the bank have requested the views of the Reserve Bank on the proposed plan and you in turn have referred the matter to the Board.

"When \$25,000 preferred stock was issued to the Reconstruction Finance Corporation in 1934, common stock was reduced from \$50,000 to \$25,000. It is understood that, as preferred stock has been retired, corresponding amounts have been credited to a reserve for dividends payable in common stock, the total now amounting to \$7,000, but that the bank now considers it unnecessary to restore its capital stock to \$50,000 and desires to maintain its capital stock at \$25,000 and build its surplus up to a like amount. In this connection it is understood that, if permitted, the bank will transfer the \$7,000 reserve for dividends payable in common stock to surplus, increasing that account to \$17,000, will then retire an additional \$7,000 of preferred stock (apparently without any corresponding increase in surplus) but that as future retirements are effected surplus will be built up until it amounts to at least \$25,000. It seems that a further retirement of approximately \$10,000 may be made shortly if plans to dispose of that amount of other real estate materialize.

"The bank's report of condition as of December 31, 1940 shows total capital account of \$63,500, as compared with deposits of \$381,000. The capital account as of that date and as adjusted to give effect to the proposed retirement are as follows:

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	<u>"Dec. 31, 1940</u>	<u>Pro Forma</u>
Preferred stock	18,000	11,000
Common stock	25,000	25,000
Reserve for dividends payable in common stock	7,000	-
Surplus	10,000	17,000
Undivided profits	3,000	3,000
Retirement account	500	500
	<u>63,500</u>	<u>56,500</u>

"Recent reports of examination of the bank reflect a clean asset condition, except for a rather sizeable amount of other real estate, amounting to \$20,300 as of December 31, and the management is described as capable. Clayton has a population of 1,800; there is one other bank in the town and you state that there is nothing to indicate the likelihood of a substantial growth in deposits of the Bank of Commerce.

"In view of the circumstances, it would appear that the proposed capital stock of \$25,000 and surplus of \$25,000 would be sufficient. The Board, therefore, will interpose no objection to the proposed plan. However, the plan as outlined in your letter provides for the immediate retirement of \$7,000 preferred stock without any corresponding transfers to surplus and the proposed additional retirement within a short time, if not immediately, of \$10,000 preferred stock from the proceeds of the sale of other real estate, which would leave only \$1,000 preferred stock outstanding. Unless substantial profits are obtained from the sale of the other real estate, it is not clear how the proposed \$10,000 retirement would conform with the program which contemplates that 'in the future (after the retirement of the \$7,000 referred to) as preferred stock may be retired the surplus will be increased in equal amounts until it reaches at least \$25,000.'"

Approved unanimously.

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In your letter of January 22, 1941, reference is made to the approval by the Board of Governors on July 3, 1940, of an expenditure by your Bank of approximately \$500,000 for the construction of a six-story service building and for certain other additions and improvements

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"to the Bank's property, including \$33,000 for furniture and furnishings. It is stated that certain additional expenditures now appear necessary, as set forth in the schedule attached to your letter, and the Board's approval is requested for an expenditure of \$580,616.44 in addition to \$33,000 for furniture and furnishings.

"It is understood that you have advised Governor Szymczak over the telephone that work on the above-mentioned project has already been started and that, in your opinion, it will not interfere in any way with the Defense Program. Under the circumstances, the Board of Governors will interpose no objection to the expenditure by the Bank of an amount not to exceed \$580,616.44 for construction of the new building in addition to \$33,000 for furniture and furnishings, as approved by your Board of Directors."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. S. ...
Chairman.