

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 12, 1941, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
 Mr. Ransom, Vice Chairman  
 Mr. Szymczak  
 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 March 11, 1941, were approved unanimously.

Letter to the board of directors of "The Citizens' Trust Company of Schenectady, N. Y.", Schenectady, New York, stating that, subject to conditions of membership numbered 1 to 6, 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.

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 Citizens' Trust Company of Schenectady, N. Y.', Schenectady, New York, for

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"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 Banks for the State of New York for his information.

"Since the estimated losses classified in the report of examination for membership are reported to have been eliminated during the examination, the usual condition regarding elimination of losses has not been prescribed.

"Standard condition numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York.

"It has been noted that the bank has maintained annual dividend payments of \$12,000 on its common stock notwithstanding its large holdings of other real estate and potential other real estate, and the declining net earnings which amounted to only \$17,492 in 1940. The application for membership has been approved with the expectation that the Reserve Bank will follow the situation closely with full realization of the necessity that the bank follow a conservative dividend policy. Without implying that the present dividend rate should be regarded as conservative, it is expected that, after its admission to membership, the bank's dividend rate will at least not be increased until an increase is fully justified by the earnings of the bank and the condition of its assets.

"It is assumed that you 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."

Letter to the board of directors of the "Auburn Trust Company", Auburn, New York, stating that, subject to conditions of membership numbered 1 to 6 inclusive, contained in the Board's Regulation H and

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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:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$64,131, as shown in the report of examination of such bank as of November 2, 1940, made by an examiner for the Federal Reserve Bank of New York."

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 'Auburn Trust Company', Auburn, New York, 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 Superintendent of Banks for the State of New York for his information.

"Standard condition of membership numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York.

"While it is said that a marked improvement has been made in the condition of the bank in the last five years, much remains to be done, particularly in connection with the bank's large holdings of other real estate and potential other real estate. It has been noted that, from its investigations, the Reserve Bank is of the opinion that the heavy indebtedness and involved financial condition of the president have not lessened his effectiveness as active managing head of the bank, of which he is the largest individual common stockholder, owning 20 per cent of that stock.

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"Granting that a managing officer in such circumstances is earnestly seeking in all good faith to work out the bank's problems to the best advantage of the institution, nevertheless it is altogether possible, if not probable, that his judgments as to values and as to action to be taken by the bank would be influenced unconsciously by reluctance to take losses with their consequences upon his personal affairs. The continuation of such a management places unusual responsibilities upon the supervisory authorities to see that the bank's interests are not permitted to suffer because of the involved condition of its officers or directors. Accordingly, the application for membership has been approved with the expectation that the Reserve Bank will give the bank close and effective supervision.

"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 account listed on page 16 of the report of examination for membership."

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.