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A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, May 19, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, 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 May 16, 1941, were approved unanimously.

Memorandum dated May 15, 1941, from Mr. Smead, Chief of the Division of Bank Operations, recommending, for the reasons stated in the memorandum, that the Board approve the application of Merret P. Caskey, a clerk in that Division, who is 62 years of age, for retirement as of August 1, 1941, and that the Board authorize such special contribution to the Retirement System of the Federal Reserve Banks as may be necessary (approximately \$950) to increase Mr. Caskey's retirement allowance from approximately \$804 to the rate of \$900 per annum on a life basis.

Approved unanimously.

Letter to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

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"Reference is made to your letter of February 26, 1941, and subsequent correspondence regarding questions as to whether a copy of the report of examination of First Bank Stock Corporation, Minneapolis, Minnesota, should be made available to the Chief National Bank Examiner of the Ninth Federal Reserve District, the extent to which the report may be made available to the State banking departments and supervising examiners of the Federal Deposit Insurance Corporation, and whether the report, except the confidential section, should be submitted to the board of directors of the holding company affiliate.

"When a simultaneous examination is made of a holding company affiliate and its affiliated banks and other organizations in cooperation with the examiners of other supervisory authorities, the Board feels, particularly in view of paragraph numbered 4 of the application for voting permit executed by the holding company affiliate, that information contained in the report should be made available to other supervisory authorities as in your judgment their respective interests may appear. In view of the large number of national banks in this group and the cooperation by national bank examiners in the examination, it is felt that a copy of the report of examination may properly be delivered to Mr. Sedlacek, as requested by him, for his information and use as Chief National Bank Examiner of the Ninth Federal Reserve District. The Board makes available to the Comptroller of the Currency and the Federal Deposit Insurance Corporation in Washington its copies of reports of examination of holding company affiliates and their affiliated banks and other organizations made by examiners for the Federal Reserve banks in all cases where such agencies have an interest in and request such reports.

"You are authorized to submit a copy of the report of examination, except the confidential section, to the board of directors of First Bank Stock Corporation. In the last paragraph of the Board's letter of November 15, 1940 (S-238), general instructions were given regarding data which should appear in the open section of reports of examination delivered to the boards of directors of holding company affiliates and data that should appear only in the confidential section. These instructions are herewith amended and restated as follows.

"Data concerning a holding company affiliate and its affiliated and closely related banks and other organizations obtained by an examination of the holding company affiliate

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"itself should be contained in the open section of the report of examination of the holding company affiliate. Data obtained by examination of a holding company affiliate's subsidiaries or from reports of examination of such subsidiaries made by other supervisory authorities should be contained in the open section of the report of examination of the holding company affiliate to the extent considered necessary or desirable. Of course, any information which is of a confidential nature, including such information obtained from or ordinarily contained in the confidential section of a report of examination of a bank, should not be included in the open section of a report of examination of a holding company affiliate. Information obtained by examination or from reports of examination of noncontrolled banks or other organizations which are affiliated with or closely related to a holding company affiliate or its subsidiaries ordinarily should not be included in the open section of a report of examination of the holding company affiliate. However, in some circumstances it may be necessary to include general comments on or summaries of such information as a basis for criticisms of relationships between the holding company affiliate and such organizations. Details regarding such information may, of course, be included in the confidential section of the report of examination.

"When it is necessary to quote or paraphrase the contents of a report of examination of a bank or other organization, care should be exercised to avoid embarrassment which may result therefrom to the examiner or the supervisory authority responsible for such report.

"In order to avoid possible violation by the examiner of section 22(b) of the Federal Reserve Act, the open section of the report of examination of a holding company affiliate should not disclose the names of borrowers or the collateral for loans of a member bank or insured bank obtained by examination or from reports of examination of such bank. Any significant information regarding such loans that should be called to the attention of the management of the holding company affiliate should be covered by means of general comments or summaries in the open section. Such detailed information as is considered to be necessary regarding loans of the banks in the group, particularly loans secured by stock of the holding company affiliate and loans to directors, officers, and employees of organizations in the group and to their interests, should be included in the confidential section."

Approved unanimously.

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Letter to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"In the confidential section of the report of examination of the Minden Bank & Trust Company, Minden, Louisiana, as of February 17, 1941, the examiner reports that the president was reluctant to call a meeting of the directors for the purpose of discussing the findings of the examination and the capital problem in particular, and that it took considerable persuasion by the State examiner and your examiner to convince him of the necessity of such a meeting. The examiner also reported that the president was not frank in discussing certain earnings and expense accounts and that it was obvious that he had deliberately been using dilatory tactics in the hope of postponing or escaping the needed increase in capital by making it appear that the minority stockholders are not willing that the increase be made.

"With respect to the capital question, the examiner reported that the directors individually expressed themselves in favor of raising \$20,000 additional capital by the next annual stockholders meeting in January 1942, plus any additional amount of preferred stock which might be retired.

"The steady and substantial growth of deposits since admission to membership must be gratifying to the management. In view of that growth, however, it is essential that the bank maintain an adequate capital account as required by the conditions of membership, and the apparent lack of good faith in dealing with the Reserve Bank and the Board regarding this matter reflects no credit on the management. It is expected that, after the discussion with the directors during the recent examination, there will be no further occasion to question the good faith of the management in effecting an increase in capital. If an acceptable program for increasing capital account is not adopted at the next annual stockholders' meeting, or even earlier, if that be considered essential, it is requested that the Reserve Bank submit a definite recommendation as to whether proceedings should be instituted to determine whether membership should be terminated on account of violation of conditions of membership.

"The report of examination shows that the violation of section 11(m) of the Federal Reserve Act or section 5136 of the Revised Statutes reported at the previous examination in connection with the excess amount of notes of

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"the Kansas City Southern Railway Company has not been corrected. Please advise what steps have been or will be taken to effect a correction of this matter.

"The call report of condition submitted as of April 4, 1941, shows no investment in bank premises or furniture and fixtures and no investments or other assets indirectly representing bank premises or other real estate. The report is incorrect in this respect, since in December 1940 the premises and furniture and fixtures were transferred to an affiliate organized for the sole purpose of holding such assets. In the call report as of December 31, 1940, the stock of the affiliate was reported as an asset indirectly representing bank premises. In the call report as of April 4, 1941, however, the stock was evidently included in the total of corporate stocks. The bank should be given to understand that failure to show the assets properly in the next call report will require publication of a corrected report.

"While no assets were classified as II, III, or IV in the report of examination and the examiner considers the general condition of the bank to be good, he describes the management as 'good as to ability but questionable as to reliability.' He adds, however, that nothing of a tangible nature was developed which might possibly involve the president in any culpable acts, but suggested that at the next examination another careful appraisal be made of the management. It is assumed, of course, that this will be done. In the circumstances, it is suggested that you advance the date of the next examination and arrange for one prior to the end of the year."

Approved unanimously.

Letter dated May 17, 1941, to Mrs. Valerie R. Frank, Secretary of the Retirement System of the Federal Reserve Banks, reading as follows:

"This is to advise you that the Board of Governors of the Federal Reserve System approves the changes in Section 6, Subdivision 1, Paragraphs c and d of the Rules and Regulations of the Retirement System of the Federal Reserve Banks, adopted by the Board of Trustees of the Retirement System at its annual meeting on May 6, 1941, as set forth in your letter of May 12, 1941.

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"Copies of this letter are being sent to Mr. W. S. McLarin, Jr., Chairman of the Board of Trustees, and to Mr. L. R. Rounds, Chairman of the Retirement Committee."

Approved unanimously.

Memorandum dated May 16, 1941, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the June Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Financial Transactions Under Neutrality Act of 1939; and

Act Authorizing Waiver of Performance and Payment Bonds on Supply Contracts Under National Defense Program.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. McLarin, Jr.
Chairman.