

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 23, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
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:

Telegrams to Mr. Treiber, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, and Messrs. Ziemer and West, Vice Presidents of the Federal Reserve Banks of Minneapolis and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on May 20, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, and Minneapolis on May 22, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Reference is made to the report of examination of the State Bank of Pearl River, New York, as of March 29, 1941. While analysis Form 212 with your recommendations has not been received, it seems desirable to consider at

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"this time some of the unsatisfactory features of the situation of the bank.

"In Mr. Sheehan's memorandum of April 15, it was stated that Director Warner Cosgrove is now taking an active interest in the affairs of the bank, because of his dissatisfaction with its lack of progress and that he was told that if the bank continued to slip it apparently would have to be liquidated. Your letter of May 7 advised that Mr. Paul Newton became cashier of the bank effective May 5, 1941, succeeding former Vice President and Cashier Stepbach whose capabilities do not appear to have been well regarded. Although the ability of the newly-installed cashier remains to be demonstrated, the examiner appears to have serious reservations as to the safety of the management generally as evidenced by his statement on Page B that 'there are so many queer angles to this case that no one can be sure what is going to happen next'. His other comments in the confidential section of the report are not at all reassuring with respect to the management in general, the methods being used to increase the bank's earning assets, the bank's general asset condition, and its future prospects.

"Examination reports of recent years have stated that the bank's future prospects are considered to be poor, that the competing national bank appears to be getting the desirable business of the community and that one well-operated bank would appear to be sufficient for the community's banking needs. It is observed that the bank was organized and admitted to the System in 1923, that it has paid no dividends in the sixteen years of its existence and in that time has sustained a loss of approximately \$102,000, necessitating a reduction of \$50,000 in common capital and voluntary contributions of approximately \$73,000. Current operations in each of the years from 1937 to 1940, inclusive, have resulted in losses amounting in the aggregate to \$5,700 and after giving effect to charge-offs and recoveries the bank sustained a net loss of \$46,100 in the period. The bank's adjusted capital of \$49,200 as shown by the current report of examination was 8.8 per cent of deposits of \$559,600, while the book value of the bank's investment in banking house and furniture and fixtures of \$83,000 was in excess of total book capital funds of \$69,400.

"A particular responsibility for the well-being of this institution rests upon the directors in view of the fact that their secured guarantee of \$84,000, given to protect depositors in case of the closing or liquidation of the bank,

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"was released in 1937 by the New York State Banking Department at their request.

"In view of the unfavorable operating experience of the bank since its organization and the unsatisfactory features of its present condition, it is suggested that in your conferences with the directors you request that some definite plan be adopted without further delay to correct the unsatisfactory features with respect to the asset condition, earning power and management of the bank. The attention of the directors should also be called to their responsibility under the provisions of condition of membership numbered 2 which require the bank to exercise all powers with due regard to the safety of its depositors. In the event that they are unable to submit a plan which in your opinion is adequate to correct the situation and appears practicable of consummation, it will be appreciated if you will submit to the Board your recommendation as to the action which should be taken in the matter."

Approved unanimously.

Letter to the "Briggs National Bank of Clyde", Clyde, New York, reading as follows:

"This refers to the resolution adopted on February 11, 1941, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar

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"authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System.

"Since it may be necessary for you to file a certified copy of the Board's certificate with the State authorities in connection with the release of the securities which you have deposited with them, such a copy is enclosed herewith."

Approved unanimously.

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

"This refers to our letter of November 15, 1940, regarding Union Bond & Mortgage Company, Port Angeles, Washington, and to your letter of January 8, 1941, calling the attention of the board of directors of the corporation to the matters discussed in our letter.

"We have not yet been advised regarding the action taken by Union Bond & Mortgage Company to bring its reserves of readily marketable assets up to the amount required by law, and to correct the violation of its general voting permit agreement arising from investment of more than ten per cent of its assets in stock of the Leader Department Store, Inc., without first having requested or obtained the permission of the Board. It is noted that the designation of Leader Department Store, Inc. as 'Investment Q' has been corrected in the holding company affiliate's annual report to the Board for 1940, but we have not been informed whether similar correction has been made in the books and records of the corporation.

"If you have received the information you requested from the Union Bond & Mortgage Company in your letter of January 8, 1941, it will be appreciated if you will furnish it to us. If you have not received such information, it is suggested that the matter be followed immediately."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved: [Signature]
Chairman.