

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 9, 1941, at 11:15 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. McKee

Mr. Morrill, Secretary  
Mr. Bethea, 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:

Bond in the amount of \$10,000 executed under date of July 1, 1941, by Alfred Cary Kearschner as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis.

Approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of St. Louis and its Louisville and Memphis Branches, as requested in your letters of July 3, 1941."

Approved unanimously.

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

"In reviewing the report of examination of 'The Plainfield Trust Company', Plainfield, New Jersey, as of March 24, 1941, four points are particularly outstanding:

1. The large amount tied up in banking house, furniture and fixtures, other real estate, and potential other real estate, and the lack of substantial progress

7/9/41

-2-

"in reducing the total. This, of course, is an old story.

2. The fact that notwithstanding the waiver by the Reconstruction Finance Corporation of required transfers into the retirement account on February 1, 1940, August 1, 1940 and February 1, 1941, the bank actually transferred \$29,265 to the account instead of using that amount to write down assets.

3. The refusal of the management to make adequate provision for the estimated losses amounting to \$276,432 classified by your examiner, the bank apparently having refused to charge off more than \$81,458, the amount of losses classified by the State examiners.

4. The complacent attitude of the directors who, according to the report of examination, stated that capital could probably be increased from local sources but that they did not consider a capital increase necessary.

"The capital of the bank has been repeatedly characterized by the examiners as inadequate but nothing seems to have been done about it. The inadequacy becomes more apparent when consideration is given to the fact that of the book capital, amounting to \$1,856,000 as of the date of examination, approximately \$200,000 represented the trust company's holdings of common stock in the Plainfield National Bank, a bank which was organized in 1928 by the Plainfield Trust Company and which has never paid dividends on its common stock. To the extent of \$200,000, therefore, the trust company's capital is pyramided, consisting of capital which in turn is supporting the deposits in the national bank, and which stands first as protection to the creditors of the national bank. Elimination of this pyramided capital would leave an adjusted capital for the trust company of \$1,197,000, as compared with deposits of \$17,702,000, a capital ratio of approximately 6.8 per cent.

"It will be appreciated, therefore, if you will advise whether the Reserve Bank agrees with the examiners who have considered that the capital is inadequate, particularly in view of the bank's asset condition, and if so, what you propose to do to correct the situation, or whether the Reserve Bank agrees with the directors that the capital is sufficient and that nothing need be done about it. It would seem that particular effort should be exerted to maintain adequate capital in view of the ill-advised retirements of preferred stock.

"It seems really incomprehensible why a bank in the condition which the Plainfield Trust is in should not have

7/9/41

-3-

"taken advantage of the waiver given by the Reconstruction Finance Corporation for the transfers to the retirement account. It will be appreciated, therefore, if you will advise the Board as to the reasons the bank failed to take advantage of the waiver when it had such a large volume of troublesome assets, which even the bank must admit are not desirable assets even if they do not admit that there are losses in them.

"The following comment appears on page 13-(a)(2) of the recent report of examination:

'The management states that, in its opinion, the bank will have to take no further losses in its O.R.E. and mortgage accounts, and, therefore, does not concede the estimated losses set up herein.'

It is assumed that you will check future developments closely against this statement in order to check upon the sincerity of the management in making it and upon their ability in working the assets out without loss to the bank.

"In summarizing his conclusions as a result of the examination of March 24, 1941, your examiner stated on page E-(2):

'My impressions as a result of attending this meeting (of the directors, at which the State examiner and the examiner for the Reserve Bank reviewed the reports of examination) are that the management has convinced the board that the bank is being operated as well as it can be, that the board and the management are quite complacent about the bank's condition and standing in the community, and that they believe that examiners' criticisms should be taken as a matter of course and be treated lightly.'

"Such a statement reflects a disturbing situation. If such treatment is all your examiners' findings are worth, it is a sad commentary on the examining staff. If, on the other hand, the findings, comments, and criticisms of your examiners are sound and are not receiving the careful consideration they deserve, it is a revealing commentary on the management.

"The trust company is the largest bank in the city and is reported to be highly regarded by the community. The bank cannot be said to be in a satisfactory condition, however,

7/9/41

-4-

"and it would seem that the Reserve Bank should endeavor first to have the directors fully realize this situation and then take prompt and effective steps to effect the necessary corrections."

Approved unanimously.

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

"Reference is made to your letter of June 20, 1941, enclosing copies of a letter dated June 18, 1941 wherein North American Investment Corporation and Commonwealth Investment Company present additional arguments regarding the applicability of section 32 of the Banking Act of 1933.

"The matter is receiving consideration and you will be advised. Of course, pending such further consideration, the opinion expressed in the Board's letter of May 26, 1941 need not be considered as final by the directors involved."

Approved unanimously.

Letter to the Comptroller of the Currency, Washington, D. C., reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order requested June 14, 1941, for the printing of Federal reserve notes of the 1934 Series in the amount and denomination stated for the Federal Reserve Bank of New York:

Denomi- nation	Number of sheets	Amount
\$5	900,000	\$54,000,000"

Approved unanimously.

7/9/41

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. Steuler

Chairman.