

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

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
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:

Letter to Mr. Hays, Vice President and Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"Referring to your letter of July 17, 1941, the Board approves the payment of a salary to Mr. J. R. Price, formerly building manager, at the rate of \$5,124 per annum, which is \$124 in excess of the maximum annual salary provided in the personnel classification plan of your Bank for the position of manager of personnel to which Mr. Price has been transferred."

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 Patchogue Citizens Bank & Trust Company, Patchogue, New York, as of April 5, 1941, and to the information submitted in connection therewith, particularly Mr. Sheehan's memorandum of June 20, 1941, regarding a conference held at the New York State Banking Department with officers and directors of the member bank.

"It is indeed disturbing to note the comments of the examiner that the bank's common capital is impaired, that the bank seems to be getting no place and that, despite the evident sincere efforts and hard work of the

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"present management, its problems seem to be getting progressively more acute. The examiner reports that the bank has been actually in liquidation since the bank holiday with very little progress having been made in that direction, and that drastic steps are necessary to put it in shape.

"It is surprising to note that President Hudson, who is reported to have sized up the bank's condition and affairs quite well, does not seem to be doing much about the bank's real estate and mortgage problems, including the affairs of the Aidit Corporation, but appears inclined to leave these matters to his other officers who are said to lack the ability and ingenuity to handle them. The tie-up with the Aidit Corporation, organized to liquidate assets taken out of the bank at time of reorganization, is reported to be positively injurious to the bank's position.

"Although there is a substantial amount of assets classed IV and a large aggregate of other assets which are a problem, it appears that the bank has made retirements of preferred capital, paid dividends thereon, and made transfers to the retirement account. It is difficult to understand how the action of the bank in this respect can be considered warranted in the light of its problems.

"The condition of the bank, as you know, was not satisfactory when it was admitted to membership in the System on March 20, 1939, and the Board's action in approving the application was based to an appreciable extent upon the view that the revision of the capital structure with the elimination of a large amount of estimated losses and membership in the System would be helpful to the bank in solving its problems. Since admission to membership, it has been necessary for the Reconstruction Finance Corporation to effect major changes in the board of directors. In spite of the efforts made to assist the bank in shaping up its affairs, it is disappointing to note that little, if any, material progress seems to have been made. It is reasonable to suppose that if the management is unable to show demonstrable progress under the increasing volume of business activity prevailing, there is little reason to hope that the bank will succeed under other circumstances.

"The problems confronting the bank were discussed at the conference of June 20, but it does not appear that the bank's representatives advanced any concrete proposals for satisfactorily solving them. It is clearly evident that the formulation and adoption of an aggressive policy to put the bank's affairs in order and to regain public

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"confidence is badly needed. The development and execution of such a program is the direct responsibility of the officers and directors of the institution. In particular, prompt and effective steps should be taken to improve the administration of the bank's real estate and troublesome mortgage loans. It would seem, also, that the situation might be materially improved if the servicing of the assets of Aidit Corporation were handled in an office separate from the bank, as suggested by the R.F.C.

"It is suggested that you point out to the directors of the bank the obligations imposed by the provisions of condition of membership numbered 1 which read in part that 'such bank at all times shall conduct its business and exercise its powers with due regard for the safety of its depositors', and that the continued operation of the bank in the present manner without an effective program for improving its condition may constitute a violation of the condition for which membership in the System could be terminated.

"Please advise the Board of your views as to the situation and the steps taken, or to be taken, to effect improvements, and of other developments in this situation as they occur.

"This letter was discussed informally with the R.F.C. before it was sent in order to be assured that the comments and suggestions made would not be inconsistent with the position of the R.F.C. which has such a large financial investment in the situation or with any program on which the Corporation may be working to correct the situation."

Approved unanimously.

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

"Reference is made to Mr. West's letter of June 26, 1941, in which he enclosed, among other things, copy of a letter dated June 24, 1941, addressed to you by the president of the First Trust and Savings Bank of Pasadena, and copies of enclosures therein referred to.

"In the last paragraph of Mr. MacDonnell's letter to you, he raised certain questions and his letter indicates that a carbon copy was forwarded to the California Superintendent of Banks. It is not known whether or not Mr.

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"MacDonnell asked directly of the Superintendent of Banks the questions which were propounded to you. It will be appreciated if you will furnish the Board with a copy of your reply to Mr. Macdonnell's letter and any other information indicating action which you have taken or which you consider advisable to be taken in this matter."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. Cullen
Chairman.