

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 22, 1941, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. Draper

Mr. Morrill, 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 August 21, 1941, were approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on August 19, by the Federal Reserve Banks of Atlanta, Chicago, Kansas City, Dallas, and San Francisco on August 21, 1941, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

8/22/41

-2-

Memorandum dated August 20, 1941, from Mr. Nelson, Assistant Secretary, recommending that Miss Dorothy B. Hoffman be appointed as a stenographer in the Secretary's Office, with salary at the rate of \$1,680 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 4, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Ruth Brooks be appointed on a temporary basis for such period as may be necessary up to December 31, 1941, as a clerk in that Division, with salary at the rate of \$120 per month, effective as of the date upon which she enters upon the performance of her duties. The memorandum stated that Miss Brooks would take the place of Miss Mildred Milles, that her salary would be reimbursable by the Federal Deposit Insurance Corporation, and that in view of her temporary employment she would not become a member of the retirement system.

Approved unanimously.

Memorandum dated August 18, 1941, from Mr. Bradley, Assistant Chief of the Division of Security Loans, recommending that Miss Anne A. Beal, a clerk in the Division of Research and Statistics, be transferred from that Division to the Division of Security Loans as a statistical clerk and that her salary be increased from \$1,440 to \$1,620

8/22/41

-3-

per annum, effective as soon as she can be spared by the Division of Research and Statistics.

Approved unanimously.

Memorandum dated August 18, 1941, from Mr. Wyatt, General Counsel, recommending that Walter Paul, a clerk in the Office of General Counsel, be granted leave of absence for military duty beginning September 18, 1941, in accordance with the policy adopted by the Board on November 14, 1940, and amended on August 20, 1941.

Approved unanimously.

Memorandum dated August 22, 1941, from Mr. Nelson, Assistant Secretary, submitting the resignation of Mrs. Helen L. Hesson, a clerk in the Secretary's Office, to become effective as of the close of business on October 13, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum dated August 19, 1941, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, submitting the resignation of Ray R. Foster, an associate economist in the Division of Research and Statistics, and recommending that the resignation be accepted as of the close of business on October 8, 1941.

The resignation was accepted.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:



8/22/41

-4-

"The Board of Governors approves the change in the personnel classification plan of your Jacksonville Branch as requested in your letter of August 19, 1941."

Approved unanimously.

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

"The answer to the appropriate question on page 16 of the report of examination of The Gnadenhutzen Bank, Gnadenhutzen, Ohio, as of June 25, 1941, indicates that the savings deposit pass books issued by that bank provide that 'depositors may be required to give due legal notice before withdrawing their deposits, but generally they will be permitted to withdraw at pleasure, but should withdrawals exceed receipts, applications will be filed and paid in the order in which received.'

"As you know, in order for a deposit to be a savings deposit within the meaning of the Board's Regulations Q and D, it must, among other things, be a deposit with respect to which 'the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made'. While the pass book provision above-quoted reserves to the bank the right to require notice of withdrawal, it does not expressly state that such notice shall be in writing or that it shall be given not less than 30 days before a withdrawal is made. The statement that depositors may be required to give 'due legal notice' is not sufficiently definite to meet the requirements of the regulatory definition. Moreover, this provision does not adequately inform depositors as to the notice which may be required by the bank.

"In the circumstances, it is requested that you advise The Gnadenhutzen Bank of the Board's views with respect to this matter in order that a correction of the phraseology in question may be made as promptly as possible without undue inconvenience to the bank."

Approved unanimously.

Letter to the board of directors of "The Liberty State Bank of Hamtramck", Hamtramck, Michigan, stating that, subject to conditions

8/22/41

-5-

of membership numbered 1 to 3 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 Chicago.

Approved unanimously, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Liberty State Bank of Hamtramck', Hamtramck, Michigan, 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 the Commissioner of Banking for the State of Michigan for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It is assumed, however, that proper provision for losses will be made as a matter of sound banking practice."

Letter to the board of directors of the "Farmers State Bank Stanberry", Stanberry, Missouri, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve Bank of Kansas City.

Approved unanimously for transmission through the Federal Reserve Bank of Kansas City.

Letter to Mr. McLarin, President of the Federal Reserve Bank

8/22/41

-6-

of Atlanta, reading as follows:

"This is to advise you that the Board has approved the budget for the Bank Examination Department of the Federal Reserve Bank of Atlanta for the calendar year 1941 as submitted with your letter of August 13."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of July 22 transmitting the report of the recent examination of the Commerce Union Bank, Nashville, Tennessee, and commenting upon some of the unsatisfactory features and unfavorable developments in the bank. You ask for an opinion on the legality of the recent acquisition by the bank of stock of Denton and Company, a local concern, and, while not mentioned in your letter, the examiner raises a question as to a possible violation of section 5136 in connection with a loan to Howard F. Martin for \$35,000 which was made to acquire stock, for the benefit of the bank, in a company in which the bank was already interested. Both questions regarding possible violations of law have been referred to the Board's counsel.

"With respect to the Denton and Company matter, the Board's counsel agrees with your counsel that there has been a distinct violation of section 5136, and further, that the purchase of the stock of Denton and Company may have been an ultra vires act of the bank as being the purchase of stock for its own account, not incidental to nor legitimately connected with its banking activity. Therefore, it is suggested that the directors of the bank be advised of the fact that the transactions in regard to Denton and Company may constitute a potential personal liability on the individual directors as being possible ultra vires acts of the bank and in violation of section 5136 of the United States Revised Statutes.

"As regards the Howard F. Martin loan, counsel is of the opinion that the facts in our possession are not entirely adequate to determine whether the loan was a bona fide loan transaction in the ordinary course of the bank's business, but that, circumstantially, it would appear that



8/22/41

-7-

"the transaction was a shield for the purchase and acquisition of 2,000 additional shares of Percy Warner Corporation stock in order that the bank might control the liquidation of the corporation, and that if a complete investigation of the facts bears out what appears to be true, undoubtedly the transaction is in violation of section 5136. In his letter of August 7, Mr. Denmark states that the bank has advised that negotiations are under way for the sale of practically all of the remaining holdings of Percy Warner Corporation, and if the sale does not materialize it is suggested that the matter be gone into more completely.

"Even more important than the legal questions referred to is the lack of more substantial progress in improving some of the unfavorable features in the bank, particularly the declining ratio of capital to deposits, a matter which is growing more serious. While it may be that the problems in the bank are being given the closest attention by the management and will eventually be worked out, the Board is quite concerned about the capital situation in this bank.

"At the time the bank was being considered for membership, in 1937, the Board was led to believe that within a reasonably short time, probably by the first of the ensuing year, the subsidiary national bank would be absorbed and in connection with the absorption a substantial amount of new capital would be put into the bank. Also at that time assurances were given that certain other unfavorable features would be corrected. The bank held a substantial amount of the stock of the Werthan Bag Company, a local concern, and it was understood that negotiations were in process for the disposition of that stock, but apparently such negotiations have never materialized and on the date of the current examination the holdings of the Bag Company stock had increased by a small amount. Last August the president of the bank stated that in his opinion the bank's holdings of the stock of Percy Warner Corporation, which, for all practical purposes, represents to a large extent an equity investment in real estate, would be eliminated by the first of the year. That did not materialize, but assurances are now given that negotiations are under way for the sale of all of the remaining holdings of the company except one piece of real estate.

"Following the previous examination the Board had some correspondence with Mr. Parker regarding the adequacy

8/22/41

-8-

"of the bank's capital, and Mr. Parker and Mr. Denmark went to Nashville to discuss the situation with the management. Nothing definite developed from the discussion and it was the understanding that Mr. Parker would review the situation again with the management around the first of February of this year, but due to the illness and subsequent death of Mr. Parker at about that time, pursuing the matter further was of course deferred. Since the previous examination there has been an increase of approximately \$5,000,000 in the deposits of the bank with very little increase in the adjusted capital account. On the date of the current examination the consolidated deposits of the Commerce Union Bank and its subsidiary national bank amounted to nearly \$35,000,000 and the book capital behind the consolidated deposits was only approximately \$2,000,000. Obviously, therefore, the situation is growing more serious, and it must be remembered that most of the capital is tied up in fixed assets and directly and indirectly owned other real estate.

"In connection with the capital question, the bank's handling of the Lebeck Brothers, Inc., line cannot escape attention. It appears that in 1939 that concern owed the bank approximately \$44,500, that the company was financially involved and faced with bankruptcy, and that in an attempt to avoid a loss of the \$44,500 the bank advanced an additional \$100,000 to pay off other creditors and undertook the financing of a new company, Denton and Company, organized to take over the business. On the date of the current examination, loans to the new company, loans to individuals for the purchase of stock, and the bank's investment in the stock of the company totaled \$330,000. The entire \$144,500 involving the old company has now been charged off, \$48,000 of the loans to individuals on stock in the new company was charged off during the current examination, and further substantial losses in connection with the new company seem evident unless there is a reversal in the operating experience of the company. In other words, when the conservation of earnings was badly needed to strengthen its capital account, the bank, in an attempt to avoid a loss of \$44,500 in loans to an insolvent company, made additional advances and has now been called upon to charge off \$192,500 and even that amount may not be the extent of the losses sustained through this transaction. Moreover, a dividend rate of 10 per cent is being



8/22/41

-9-

"maintained and since the bank was admitted to membership dividends totaling \$375,000 have been paid.

"In the confidential section of the current report the examiner states that the management again expressed the desire to increase the capital as soon as conditions are propitious for the sale of additional stock but does not think that this is the proper time. As pointed out in the Board's letter of August 27, 1940, to Mr. Parker, it must be recognized that the same uncertainties which are claimed to have created a condition unfavorable to the sale of new stock may also have an adverse effect on the assets of the bank and thereby intensify the need for additional capital. It was also pointed out in that letter that the Board and the Federal Reserve Bank must be mindful of the fact that they have a definite responsibility in connection with the maintenance of adequate capital by the Commerce Union Bank.

"The Board has been considerate of the bank's desire for more time, but it is felt that there should be no further delay by the bank in taking steps to increase its capital materially. The bank is subject to a condition of membership, among others, regarding the maintenance of adequate capital, and it is hoped that the management will take immediate steps to work out a program for the sale of additional stock. It is requested that you take the matter up with the management and advise the Board of the action which will be taken by the bank."

Approved unanimously.

Mr. Morrill suggested that the Board authorize the payment of the cost of luncheons served to Messrs. Otto Niemeyer of the Bank of England and Kenneth Bewley of the British Purchasing Commission, in the Board's dining room today.

Approved unanimously.

8/22/41

Thereupon the meeting adjourned.

A. Lester Morrie  
Secretary.

Approved: W. S. Charles  
Chairman.