

FEDERAL RESERVE BOARD

OFFICE CORRESPONDENCE

Date May 17, 1928.

To Mr. Wyatt

Subject: J. F. Jarvis, et al, v. Otto

From Mr. Wingfield

Kepp, et al.

This is an action in equity brought by general depositors of the Neoga National Bank of Neoga, Illinois, against the officers and directors of that bank and against the Federal Reserve Bank of Chicago. It is charged that the officers and directors of the Neoga National Bank carelessly and negligently conducted the bank and mismanaged its affairs and that such officers and directors knew or should have known that the bank was insolvent on January 1, 1924, and continued to be insolvent until it was closed on January 12, 1925, but that they kept the bank open during this period and received deposits from the complainants. It is also charged that the Federal Reserve Bank of Chicago of which the Neoga National Bank was a member, is charged by law with the duty of supervising its member banks and that the Federal Reserve Bank knew or should have known that the Neoga National Bank was insolvent on January 1, 1924, and that it should have caused the Neoga National Bank to be closed or to have refused to make any rediscounts for this bank subsequent to January 1, 1924. The bill asks a judgment against the officers and directors for loss occasioned to the depositors by reason of the negligent management of the Neoga National Bank and asks that the Federal Reserve Bank be required to return all the notes and bills in its hands on the date of the closing of the bank which it had received from the Neoga National Bank and to have the Federal Reserve Bank put on the same basis as any other creditor with reference to its claims against the Neoga National Bank.

It appears that the theory upon which this suit is directed at the Federal Reserve Bank is that the Federal Reserve Bank is charged by law with the duty of examination and supervision of its member banks. Accordingly the Federal Reserve Bank knew or should have known of the insolvency of the Neoga National Bank; any assets received from the national bank thereafter were received as trustee; and in equity and good conscience the Federal Reserve Bank should be required to turn back such assets for the benefit of the depositors and should not occupy the position of a preferred creditor.