

FEDERAL RESERVE BOARD

X-6131

WASHINGTON

September 12, 1928.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Decision in Neoga National Bank Case.

Dear Sir:

There is enclosed for your information a copy of the ruling of the United States District Court for the Eastern District of Illinois, upon the motion of the Federal Reserve Bank of Chicago to dismiss complainants' bill in the case of J. F. Jarvis, et al., v. Otto Kepp, et al., being a suit brought by the depositors of the Neoga National Bank of Neoga, Illinois, against the directors and the receiver of that bank and against the Federal Reserve Bank of Chicago. There is also enclosed for your information, a copy of the brief in support of this motion filed on behalf of the Federal Reserve Bank of Chicago.

The theory upon which the Federal reserve bank was joined as a party defendant in this suit may be summarized very briefly as follows:

(1) That the Federal reserve bank is charged with the duty of supervising national banks and is liable to the depositors thereof for failure to cause such banks to be closed when they become insolvent; and

(2) That the Federal reserve bank had obtained an unlawful preference in violation of Section 5242 of the Revised Statutes, by receiving additional collateral for rediscounts, which enabled it to collect its indebtedness in full when the depositors of the bank only received sixty cents on the dollar.

The Federal reserve bank filed a motion praying that it be dismissed from the suit on two grounds:

(1) That the bill of complaint stated no cause of action against the Federal reserve bank; and

(2) That the Federal reserve bank could not properly be joined as a party defendant in a suit brought by the depositors of the member bank against the directors of such bank for losses arising from the alleged mismanagement of the member bank by the directors.

The Court sustained the motion of the Federal reserve bank on both grounds and dismissed the Federal reserve bank from the suit.

Very truly yours,

Walter Wyatt,
General Counsel.