

IN THE DISTRICT COURT OF THE UNITED STATES,
FOR THE NORTHERN DISTRICT OF GEORGIA,
ATLANTA DIVISION.

T. C. BOBBITT, ET AL, (No. _____
VS (IN EQUITY.
FEDERAL RESERVE BANK OF ATLANTA, (
ET AL.)

RESPONSE OF THE DEFENDANT, FEDERAL RESERVE BANK
OF ATLANTA, TO THE RULE NISI OF THE COURT, DATED
December 2, 1929.

Comes now Federal Reserve Bank of Atlanta, one of the de-
fendants in the cause above styled, and makes this its response to the
rule nisi entered herein on December 2, 1929 by this Honorable Court,
requiring the defendants in said action to show cause why an injunction
should not issue as in complainant's bill prayed, and, for such re-
sponse, says:

- 1 -

This defendant can neither admit nor deny the averments of
paragraph 1 of said bill.

- 2 -

In response to paragraph 2 of said bill, this defendant says
that it is true that the First National Bank of Dublin formerly owned
certain real estate in Laurens County, Georgia, consisting of property,
improved and unimproved, in the City of Dublin and a number of farms.
The holdings of said First National Bank of Dublin exceeded, in number,

fifty separate tracts and/or farms. Said paragraph 2 appears to contain a general description of said property. It is true that the former real estate holdings of said First National Bank of Dublin (except such thereof as have heretofore been sold either by it or by Southern Realty Company, its successor in interest and title) are fully described in a certain legal advertisement referred to in said paragraph. This defendant further says in response to paragraph 2, that the real estate of said First National Bank of Dublin was heretofore by it sold to a corporation known as Southern Realty Company, and that security deeds were executed by said Southern Realty Company securing the payment of notes given by it to said First National Bank of Dublin and representing all, or substantially all, of the purchase price of said properties. This defendant is informed and believes that the said Southern Realty Company was organized for the purpose of taking over said real estate holdings of said First National Bank and operating the same, and this defendant is further informed and believes that said Southern Realty Company has no assets other than said real estate and personal property, such as live stock, farming equipment, tools, machinery, agricultural products and choses in action, like notes and accounts receivable of relatively nominal value.

This defendant further says that on April 28, 1927 said Southern Realty Company made and executed to First National Bank of Dublin a deed conveying a number of said properties, which deed was recorded on the 29th day of April, 1927 in Deed Book 60, at pages 66 et seq. Laurens County Records. Said deed was made to secure an indebtedness for the then principal sum of \$280,705.16. Shortly thereafter, to-wit, on May 31, 1927, the said deed to secure debt, and all of the

right, title and interest of said First National Bank of Dublin in and to the lands conveyed thereby, as well as the rights of said First National Bank of Dublin arising under said deed, were granted, transferred, assigned and conveyed to Federal Reserve Bank of Atlanta.

On November 30, 1927 said Southern Realty Company made another deed to secure debt to said First National Bank of Dublin, which deed was recorded on November 30, 1927 in Deed Book 60, at page 481, Laurens County Records. Said deed was made to secure the payment of an indebtedness then aggregating \$150,000.00, and the same was on December 5, 1927, transferred and assigned to said Federal Reserve Bank of Atlanta, together with all the right, title and interest of said First National Bank of Dublin in and to the lands conveyed thereby, as well as all rights of said First National Bank arising thereunder. Said deed also conveyed certain of said properties.

On February 28, 1928 said Southern Realty Company executed a security deed to said First National Bank of Dublin, conveying certain of said properties to secure an indebtedness for the then principal sum of \$2,175.00, which deed was recorded in Deed Book 61, at page 123, Laurens County Records. Said deed was, on August 31, 1928, transferred assigned and conveyed to said Federal Reserve Bank of Atlanta, together with all the right, title and interest of said First National Bank of Dublin in and to the lands conveyed thereby, as well as all rights of said First National Bank arising under said deed.

On March 20, 1928 said Southern Realty Company made to said First National Bank of Dublin a deed to secure debt, which deed was recorded in Deed Book 61, at page 144, Laurens County Records. Said deed conveyed certain of said properties and the same, together with all of

the right, title and interest of said First National Bank in and to the lands conveyed thereby, as well as all rights of said First National Bank arising under said deed, were on August 31, 1928 granted, transferred, assigned and conveyed to said Federal Reserve Bank of Atlanta. Said deed was made to secure an indebtedness for the then principal sum of \$9,787.75.

On March 14, 1928 said Southern Realty Company executed to said First National Bank of Dublin another security deed, which was recorded in Deed Book 61, at page 255, Laurens County Records. Said deed conveyed certain of said properties and the same was, on the _____ day of _____, 1928, transferred, assigned and conveyed to said Federal Reserve Bank of Atlanta, together with all of the interest of said First National Bank of Dublin in and to the lands conveyed thereby and all rights of said First National Bank of Dublin arising under said deed. Said deed was made to secure an indebtedness for the then principal sum of \$_____.

On May 4, 1928 said Southern Realty Company made and executed to said First National Bank of Dublin a deed to secure debt, conveying certain of said properties, which said deed was recorded in Deed Book 61, at page 363, Laurens County Records. Said deed was made to secure an indebtedness for the then principal sum of \$24,790.00, and said deed, together with all of the right, title and interest of said First National Bank of Dublin in and to the lands conveyed thereby, as well as all rights of said First National Bank arising under said deed, were transferred, granted and conveyed to said Federal Reserve Bank of Atlanta on June 26, 1928.

On May 14, 1928, said Southern Realty Company conveyed to said

First National Bank of Dublin certain of said properties by deed recorded in Deed Book 61, at page 312, Laurens County Records. Said deed was made to secure an indebtedness for the then principal sum of \$4300.00, and said deed, together with all of the right, title and interest of said First National Bank of Dublin in and to said lands, as well as all rights of said First National Bank arising under said deed, were, on June 26, 1928, granted, transferred, assigned and conveyed to said Federal Reserve Bank of Atlanta.

On June 14, 1928 said Southern Realty Company conveyed to said First National Bank of Dublin certain of said properties by a deed which was made to secure an indebtedness for the then principal sum of \$3,000.00. Said deed was recorded in Deed Book 61, at page 423, Laurens County Records, and the same, together with all the right, title and interest of said First National Bank of Dublin in and to the lands conveyed thereby, as well as all rights of said First National Bank arising under said deed, were granted, transferred, assigned and conveyed to Federal Reserve Bank of Atlanta on September 13, 1928.

On June 14, 1928 said Southern Realty Company executed its deed to said First National Bank of Dublin, which deed was made to secure an indebtedness for the then principal sum of \$175,000.00. Said deed was recorded in Deed Book 61, at page 576, Laurens County Record, and the same conveyed the property at the southwest corner of Madison and Jefferson Streets in the City of Dublin known as the first National Bank Building. Said deed, as well as all of the right, title and interest of said First National Bank of Dublin in and to the property conveyed thereby and all the rights of said First National Bank of Dublin arising under said deed, were granted, transferred, assigned and conveyed to said Federal Reserve

Bank of Atlanta on August 29, 1928.

On June 22, 1928 said Southern Realty Company made to said First National Bank of Dublin a certain deed, conveying a number of said properties, which deed was executed to secure an indebtedness for the then principal sum of \$392,364.66. Said deed was recorded in Deed Book 61, at pages 421, et seq. Laurens County Records, and said deed, together with all the right, title and interest of said First National Bank of Dublin in and to the lands conveyed thereby, as well as all rights of said First National Bank arising under said deed, were on June 29, 1928 granted, transferred, assigned and conveyed to said Federal Reserve Bank of Atlanta.

Any averments in paragraph 2 of complainant's bill in conflict with the admissions and averments made and set up in this section of the answer are denied.

- 3 -

In response to paragraph 3 of said bill, this defendant says that it is true that on September 4, 1928 the affairs of said First National Bank of Dublin were taken over by the Comptroller of the Currency of the United States, pursuant to the statutes for such cases made and provided, and that a receiver, duly appointed by the Comptroller of the Currency, is now in charge of the affairs of said bank and is liquidating the same.

- 4 -

In response to paragraph 4 of said bill, this defendant says, upon information and belief, that it is true that Southern Realty Company was incorporated and organized in the year 1927, and that the purpose of

organizing said corporation was for it to acquire, operate, manage, hold and sell certain large real estate holdings which said First National of Dublin had theretofore acquired. This defendant is informed and believes that all of the properties mentioned or referred to in Complainants' bill were conveyed by said First National Bank of Dublin to said Southern Realty Company, but as to whether the same were conveyed by one deed or by several deeds this defendant is not informed. This defendant is further informed and believes that said Southern Realty Company paid for said properties no cash, or substantially none, but executed its note, or notes, evidencing its obligation to pay the purchase price of said properties as well as its obligations to reimburse said bank for loans and advances made to said Southern Realty Company and for any other indebtedness due by it to said First National Bank. All of said notes were secured by deeds conveying to said First National Bank certain of the properties aforesaid. This respondent is not informed as to the amount of capital stock issued by said Southern Realty Company, but it is informed, and believes, that the officers and directors of said Southern Realty Company were either officers or directors of said First National Bank. If there be any averments in paragraph 4 of said bill contrary to the statements and averments contained in this section of the answer, the same are denied.

- 5 -

This defendant denies paragraph 5 of said bill as charged, and denies specifically and emphatically that it was in any way or to any extent a party to any fraud upon the creditors of said First National Bank, or anyone else. As will hereinafter more particularly appear, this defendant acquired for full value and under circumstances and for the purposes

hereinafter stated all of the notes made by said Southern Realty Company to said First National Bank and secured by the above mentioned deeds, or any of them. Said notes were taken in the course of the business dealings between said Federal Reserve Bank and its member bank, said First National Bank of Dublin. This respondent says that it is true that it did not have any of the aforesaid transfers of said deeds recorded until after a receiver had taken charge of the affairs and assets of said First National Bank, but it says further that it had the right either to record or not to record such transfers as it might wish, and that, even had said transfers never been recorded, said First National Bank and/or the Receiver in charge of its affairs would hold titles to the lands conveyed by said security deeds in trust for this defendant as the owner and holder of the notes secured, respectively, thereby.

- 6 -

Defendant denies paragraph 6 of said bill. As will hereinafter more particularly appear, liens on or titles to the properties referred to in the original bill were acquired by the Federal Reserve Bank of Atlanta long prior to the closing of the First National Bank of Dublin as security for loans bona fide made to it.

- 7 -

In response to paragraph 7 of said bill, this defendant shows that the same consists largely of immaterial and irrelevant matter, and, for said reason, requires no answer. In so far, however, as said paragraph may be taken as charging relevant or material averments of issuable fact, the same is denied. Defendant denies specifically that it did anything for the purpose of misleading the creditors of said First National Bank of Dublin as in said paragraph of said petition charged.

- 8 -

Defendant denies paragraph 8 of said bill and each and every averment thereof. As will hereinafter more particularly appear, the said notes were taken by said Federal Reserve Bank from said First National Bank of Dublin as collateral and for value in order to aid said First National Bank of Dublin, and all of said transactions were properly within the course of dealings between said two banks.

- 9 -

In so far as paragraph 9 of said bill can be taken as charging any material averment of issuable fact, the same and every part thereof are denied. Hereinafter in this response will be set forth in some detail the circumstances and conditions under which this defendant acquired the notes of said Southern Realty Company so secured as aforesaid.

- 10 -

Defendant denies each and every averment of paragraph 10 of said petition, and denies specifically that it had anything to do with the selection or appointment of H. S. Day as an officer of said First National Bank of Dublin.

- 11 -

Paragraph 11 of said bill consists mainly of averments respecting alleged acts of persons other than this defendant. In so far as said paragraph may be taken as charging anything against this defendant, the same is denied. This defendant denies specifically that it had anything to do with the alleged publication of said statement in said Courier-Herald and denies that it inspired said statement and denies that any of its acts were fraudulent, improper or illegal.

- 12 -

In response to paragraph 12 of said petition this defendant says

that it is true that said First National Bank of Dublin is insolvent. Defendant is without information as to the amount of probable dividends which will be paid by the Receiver of said First National Bank, but defendant believes that but a small proportion of its indebtedness will be liquidated through dividends.

- 13 -

This defendant denies paragraph 13 of said petition.

- 14 -

This defendant is without information as to any of the matters and things undertaken to be set out in paragraph 14 of said bill and, for such reason, neither admits no denies the same. This defendant denies, however, that said complaint sets forth any facts which would entitle the plaintiffs, or any of them, to recover as against this defendant or its co-defendant, the Receiver of the First National Bank of Dublin.

- 15 -

This defendant says that it is true that the Comptroller of the Currency of the United States and the Receiver of said First National Bank of Dublin refused to join in complainants' action. Defendant says further that neither the Comptroller of the Currency nor the Receiver have questioned the propriety or legality of any of the acts of said Federal Reserve Bank referred to in said bill. This defendant denies that there is any conspiracy or combination as between the Federal Reserve Bank and the Comptroller of the Currency or as between it and the said Receiver as charged in said paragraph 15 of said petition. Any cooperation as between said parties has been and is solely to the end that the most possible be realized from the liquidation of the trust which is being administered by the said Receiver under the direction of the Comptroller of the Currency.

- 16 -

Defendant denies paragraph 16 of said petition as charged. It admits that prior to December 3, 1929 it advertised for sale all of the properties covered by the security deeds hereinbefore specifically referred to, said advertisement having been made pursuant to the provisions contained in said deeds and in strict conformity with the same. It is further admitted that this defendant had intended to sell said properties at public outcry to the highest and best bidder, or bidders, for cash. On the day of said proposed sale, to-wit, Tuesday, December 3, 1929, and in the forenoon, information reached the representatives and attorneys of this defendant, then in Dublin for the purpose of conducting said sale, that a bill, seeking to enjoin said sale, had been filed in some court and that the matter would be heard on Saturday, December 7, 1929. The representatives of this defendant, not knowing whether a temporary restraining order had been granted, undertook to secure information and learned of the filing of this bill before this Honorable Court. In order that all due deference might be shown to the Court, even though no restraining order had been issued, said sale was withdrawn. This defendant proposes, however, promptly to re-advertise said premises for sale unless prevented from so doing by the processes of the Court, and it hereby represents to the Court that no injunction should be granted for the reasons herein set forth and that it is important that said properties be sold without further delay. Defendant denies the remainder of said paragraph 16 as charged. It admits that it holds a second mortgage or deed to secure debt covering said First National Building.

- 17 -

Paragraph 17 of said bill is denied as charged. This defendant

admits that it had proposed to offer the various parcels which were advertised as aforesaid in units or as separate tracts, ascertaining the aggregate of the bids therefor, and thereafter to offer all of said properties as a whole, consummating the sale by deeding the properties to the purchaser of the same as a whole or to the respective purchasers of the separate tracts, depending upon whether the bid for all of the properties exceeded the aggregate of the bids for the separate tracts or vice versa. Defendant says that it had a right to so offer the properties, and that to do so was in the interests of all concerned, including the creditors of said First National Bank of Dublin.

- 18 -

And now, having made response to said bill by answering seriatim the various paragraphs thereof and all of the allegations therein contained, this defendant, for further cause why an injunction should not issue as prayed by complainants, shows to the court as follows, to-wit:

- A -

This defendant is one of twelve Federal Reserve Banks established under and by virtue of that certain Act of Congress known as the Federal Reserve Act and now operating pursuant to said Act as from time to time amended. Among the other powers, functions and duties of defendant are the power and duty of lending to its member banks such reasonable sums of money from time to time as such members may apply for, and for the repayment of which defendant may reasonably secure itself. It is the duty of defendant in lending money to its member banks to obtain reasonable security for many reasons, among which is the fact that a large part of the circulating currency of the United States consists of Federal reserve notes which are secured in part, under the terms of said Federal Reserve Act, by eligible

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paper acquired by discount or rediscount from its members, said First National Bank of Dublin having been one of the member banks of this defendant.

- B -

Prior to January, 1925 there had been one or more bank failures in the City of Dublin, Georgia, and in the early part of January of that year the Southern Exchange Bank (not being a was in imminent danger of closing and did close on or about January 12, 1925. On January 8, 1925 said First National Bank of Dublin was indebted in a substantial amount to said Federal Reserve Bank, but it was regarded then and subsequently as being solvent and able to continue the performance of its duties to the business community centering in Dublin. On said last mentioned date the Officers and certain of the Directors of said First National Bank of Dublin appeared before the Executive Committee of this defendant and represented to said Committee that said Southern Exchange Bank would doubtless shortly close its doors, in which event trouble might be anticipated in the way of a depositors' run upon said First National Bank. Said Officers and Directors requested of this defendant that there be made available to said bank \$200,000.00 in cash in order to withstand said run. This defendant agreed to lend said additional fund to said First National Bank provided it were made secure in the premises. Prior to said date, said First National Bank of Dublin had taken over the affairs of another bank, known as the Dublin and Laurens Bank, assuming the liabilities of the latter and acquiring all of its assets. Among such assets were a number of mortgages or deeds to secure debt covering various properties, as well as certain real estate owned outright, the aggregate of said realty being substantially all of the properties referred to in complainants' bill

except the building known as the First National Bank Building, in which were housed the banking quarters of said bank. This defendant agreed to accept as additional security for said new advance transfers, assignments and conveyances of all of said mortgages or deeds to secure debt which had been so taken over by said First National Bank from said Dublin and Laurens Bank. This respondent thereupon and from time to time thereafter rediscounted for said First National Bank certain of its customers' notes aggregating approximately \$200,000.00, or else took the direct notes of said First National Bank, payable to defendant and secured by a pledge or hypothecation of customers' notes, said new indebtedness and the indebtedness thereafter incurred, as well as the then existing indebtedness, being further secured by a transfer of all of said mortgages which said First National Bank then held and which had been acquired from said Dublin and Laurens Bank as aforesaid. Said additional advance of \$200,000.00 was made to said First National Bank of Dublin upon the strength of said security. This respondent therefore says that as early as January, 1925 it held for the obligations of said First National Bank of Dublin, then existing or thereafter to be incurred, practically all of the real estate referred to or mentioned in complainants' bill, said collaterals having been taken under the circumstances aforesaid in good faith and for value.

- C -

In November, 1925 this defendant held obligations of said First National Bank of Dublin in a large amount, which obligations consisted of notes rediscounted upon the endorsement of said First National Bank of Dublin and/or notes upon which it appeared as maker and which were secured by collaterals referred to in such notes. In addition, this defendant

held certain general collateral for the protection of any and all obligations of said First National Bank of Dublin, including the notes so secured by mortgages and which had been acquired in January, 1925 as above stated. On November 23, 1925 this defendant authorized the release to said First National Bank of Dublin of all of such additional collateral with the exception of said notes secured by real estate which it retained as its security in the premises.

- D -

From January, 1925 and down to the present time said First National Bank of Dublin has been largely indebted to said Federal Reserve Bank of Atlanta, its said indebtedness during all of that period having been reduced below \$200,000.00 only for brief intervals and being at almost all times substantially in excess of that figure. During all of the period aforesaid this defendant has held notes secured by said real estate, as will hereinafter more fully appear. At all times and now this defendant has deemed such real estate security necessary for its own protection and indemnity in the premises. Respondent further shows that the community of which Dublin is the center is largely an agricultural community; that a majority of the inhabitants of said section are engaged in farming and that such thereof as are not engaged in farming are largely dependent for success upon agricultural conditions. Prior to 1925 said First National Bank of Dublin had made many loans, aggregating large amounts, to farmers and others interested in or dependent upon agriculture for a livelihood. Crop failures prior to 1925 had prevented the liquidation of much of this paper, but the Officers of said First National Bank represented to this defendant that with better prospects in agriculture much of said paper could be retired and that said First National Bank, while having much

paper which was slow, would eventually realize on most of the same. It was also represented that the large amount of real estate which had been acquired originally by the taking over of the affairs of said Dublin and Laurens Bank should be held until real estate values might be restored. This hopeful and optimistic attitude continued practically until said First National Bank was forced to close its doors through a lack of liquid resources. But, up to the time of its closing and since, there have been repeated crop failures and general business conditions have not improved to any marked extent. The failure of said First National Bank also occasioned distress and brought about many financial reverses.

- E -

On or about October 10, 1926 the Officers of said First National Bank represented to this defendant that a run upon their institution had been started by malicious rumors and that it would be necessary for said First National Bank to be placed in cash funds to the extent of \$300,000.00 in addition to the then large amount which said First National Bank owed to this defendant. Said new advance was made and the failure of said bank was averted. At said time, that is to say, in October, 1926, this defendant took or retained liens on substantially all of the real estate owned by said First National Bank or in which it was interested excepting the building mentioned above and called the First National Bank Building.

- F -

In the early part of 1927 (the exact date not being known to this defendant) said Southern Realty Company was organized, according to the knowledge, information and belief of this defendant, by the officers and directors of said First National Bank for the purpose of taking over all of the real estate holdings of said First National Bank of Dublin and

operating, managing, holding and disposing of the same. This defendant is informed and believes that it was deemed advisable that said First National Bank, being a national banking institution, should so dispose of its real assets, said bank, however, retaining a lien or title to secure the amount which said First National Bank then had invested or had put into said real estate holdings. This defendant desired to cooperate with said First National Bank of Dublin and, thereupon, permitted the mortgages which it then held to be released and discharged upon condition that when and as said Southern Realty Company should execute a new mortgage or deed to secure debt to said First National Bank, the same should forthwith be transferred, conveyed and assigned over to said Federal Reserve Bank to stand in lieu of and in substitution for the mortgages or deeds which it had formerly held. Under date of April 28, 1927 Southern Realty Company made and executed the deed, hereinbefore more particularly described, running to said First National Bank and conveying thirty-two (32) separate tracts or parcels of land. This instrument, with all the title of said First National Bank in and to the lands conveyed thereby, was on May 31, 1927 duly transferred, conveyed, assigned and set over to this defendant, as heretofore stated. Said conveyance and assignment was taken more than two years before the closing of said First National Bank and for the purpose of securing the then indebtedness of said bank, as well as any indebtedness which might thereafter be incurred. Among the properties conveyed by said last mentioned security deed were a large number of farms and city real estate. In fact, all of the properties referred to in complainants' bill were included in said deed with the exception of The First National Bank Building, the Parr Furniture Company Building, a building known as Rice Motor Company Building, certain lots at

the north end of Church Street, a lot on the east side of North Jefferson Street, a lot on the north side of West Jackson Street, certain property known as the Brantley Building at the northwest corner of Jackson and Jefferson Streets, a lot on the south side of West Gaines Street, the Dublin and Laurens Bank Building, a lot on the south side of Johnson Street, a lot on the North side of Johnson Street, two small lots on the east side of Laurens Street, a lot on the east side of North Jefferson Street, a lot on the north side of East Gaines Street, certain acreage on the east side of Washington Street, a farm about eight miles southeast from Dublin and a lot of land at Cadwell, Georgia. All of said properties which were not included in the deed of April 28, 1927 were conveyed by other deeds of said Southern Realty Company; such other deeds being hereinbefore specifically listed and all of which, together with the lands respectively conveyed thereby were transferred, assigned and set over to said Federal Reserve Bank of Atlanta as hereinabove more particularly stated.

- G -

In the latter part of the year 1927 it was reported to this defendant that said First National Bank of Dublin had, with the approval of the Comptroller of the Currency, effected a change in its capital structure in that certain of its stockholders had paid into the treasury of said bank the additional sum of \$100,000.00, at the same time reducing the amount of its capital in a like amount. This was done, according to the information of this defendant, in order that certain losses might be eliminated in the assets of said bank without impairing its capital. It was reported to this defendant that the said re-capitalization would so far improve the condition of said First National Bank that it could operate

on a successful basis. This defendant was requested to make an additional advance of \$100,000.00 in order to improve the cash condition of said bank. This additional advance was made upon the strength of the collaterals then held by this defendant, including liens on all, or practically all, of the real estate mentioned or referred to in complainants' bill.

- H -

On May 19, 1928 said First National Bank of Dublin and said Southern Realty Company requested this defendant to release from the lien, title, operation and effect of the deeds which this defendant then held certain property to the end that said Southern Realty Company might borrow on the security thereof \$100,000.00 to be turned over to said First National Bank of Dublin and to be used for its own benefit. In order to aid said First National Bank, this defendant consented to do so upon condition that after first mortgages had been placed, second mortgages to the extent of the original debts would be taken and transferred to defendant. Thereafter said Southern Realty Company borrowed from the State-Planters Bank and Trust Company of Richmond, Virginia. \$25,000.00 upon the security of said Dublin and Laurens Bank Building; \$10,000.00 from the same Company on a building on the north side of Jackson Street, then occupied by the Sales Agency of the Chevrolet Automobile Company; \$5500.00 from the same Company upon the security of a building known as the Parr-Wood Furniture Company Building; \$25,000.00 from the same Company upon the security of a building known as Rice Motor Company Building; \$7500.00 from the same Company upon the security of a building known as Laurens Hardware Company Building. Upon all of said properties this defendant then held first liens. It consented also to the release of other properties to the end that said Southern Realty Company might place loans thereon, but in certain

cases, not material herein to be stated, said loan transactions were not consummated because of dissatisfaction with the security or for other reasons. The properties so released were subsequently re-conveyed by security deeds to said First National Bank and such later deeds were transferred to defendant. This defendant does not undertake herein or for the purpose of this hearing to set out with particularity all of the various transactions involving said real estate which have extended over the period from January, 1925, when defendant first obtained the security thereof. It avers the above, however, in a general way as showing why certain of the properties appear to have been conveyed twice by the Southern Realty Company to the First National Bank of Dublin, and are therefore, covered by two of the deeds heretofore transferred to this defendant and now held by it as aforesaid. Defendant avers unconditionally, however, that prior to the closing of said First National Bank, and at periods ranging from January, 1925 down to June 22, 1928, security deeds, covering various of said properties, were taken by said First National Bank of Dublin and subsequently transferred to said Federal Reserve Bank of Atlanta. Each of said transfers was for the purpose of securing this defendant as heretofore stated, and each was supported by an advance of monies or funds to said First National Bank. Particular mention is made in complainants' bill of the building known as the First National Bank Building, and being the building which was formerly occupied as the banking quarters of said First National Bank. At the time said monies were borrowed from said State-Planters Bank and Trust Company this defendant, although a large creditor of said First National Bank, consented, in order to aid said Bank, to the placing on said property of a first loan amounting to \$39,500.00. After placing said first loan on

said property, said Southern Realty Company re-conveyed the same to said First National Bank of Dublin to secure an indebtedness to the extent of \$175,000.00, said deed having been recorded on September 3, 1928 in Laurens County, Georgia. On August 28, 1928 said First National Bank of Dublin requested of this defendant an additional loan or advance of \$20,000.00, which was made upon condition that said second mortgage covering said First National Bank Building would be transferred to this defendant as security for all the indebtedness of said First National Bank, present, past and future. Said transfer of said paper was made on August 29, 1928 as heretofore stated, and the same was supported by the consideration of a new advance of \$20,000.00.

- I -

In paragraph 9 of plaintiffs' bill it is averred that said First National Bank, in contemplation of insolvency and to the end that said Federal Reserve Bank might be preferred, transferred to said Federal Reserve Bank, in addition to certain real estate mortgages, \$30,000.00 in Liberty Bonds. This defendant specifically denies said averment and says that the facts are that on July 6, 1928 said First National Bank of Dublin, being in need of funds, requested of this defendant an advance of \$65,000.00, which this defendant made upon a rediscount of customers' notes to that extent in face value, it being further secured by \$30,000.00 of bonds, the said \$30,000.00 of bonds being not Liberty Bonds but various industrial bonds. Upon the making of this new loan or advance, said \$30,000.00 of industrial bonds were hypothecated with this defendant and the same are now held by it.

- J -

In paragraph 10 of said petition the charge is made that this

National Bank to select a new Vice-President and Cashier by the name of H. S. Day. This charge is denied. Defendant says that it had nothing to do with the selection of the said Day; that the Officers of said First National Bank were dissatisfied with the services of the former cashier of said bank and believed that good could be accomplished by placing in the institution a trained man. They believed that the said Day was a man of high calibre and good ability and, so far as this defendant knows, their judgment was well founded. Defendant denies that it, however, had any specific information with respect to the said "bad debt of the Dublin Creamery Company" until shortly prior to the closing of said First National Bank. This defendant believed that said First National Bank might survive its troubles and continue to be of service to the community if loans were extended to it pending such times as its frozen and slow assets could be liquidated. The continued crop failures and the decline in land values, however, rendered impossible the liquidation which said First National Bank had anticipated.

- K -

This defendant further shows that when said First National Bank of Dublin closed it was indebted to it in the sum of \$604,312.41; that, at said time, defendant held as collateral, notes and other securities having a nominal or face value of \$1,225,259.63. Of said collateral it held notes of the Southern Realty Company, secured only by said mortgages or security deeds, of the nominal or face value of \$610,408.33. As of December 3, 1929, said indebtedness of said First National Bank of Dublin to this defendant amounts, in principal, to \$289,933.58, the said indebtedness having been reduced to this figure by collections made on collaterals and by a dividend of five per centum paid by the Receiver in liquidation. For

the payment of the remaining due of said indebtedness, this defendant holds, as of December 3, 1929, collaterals having a nominal or face value of \$1,018,165.94, of which said amount of collaterals the notes of Southern Realty Company, secured only by said real estate, aggregate \$596,789.94. Due to the circumstances above mentioned, such as crop failures and declining of land values and bankruptcies which have occurred within the last twelve months, said collateral has become worth very much less than its nominal or face value. The defendant estimates that, under favorable conditions, it can collect from its collateral, exclusive of the real estate collateral, not exceeding \$95,000.00, but when, as and if such collateral might be sufficient to pay the debt of this defendant, any excess would, of course, accrue to the Receiver of said First National Bank. This defendant denies that it intended to take over said properties at a purely nominal figure. On the contrary, it had instructed its representatives to bid at said sale approximately \$194,000.00 for all of said properties, which amount this defendant determined, after a careful consideration, to be the fair cash value of said properties and all of them over and above outstanding prior mortgages. Defendant shows that there are against said properties mortgages aggregating approximately \$112,000.00, which are ahead of the claims of defendant. Much of the property has depreciated and is in urgent need of repair. Besides the principal amount above mentioned as the present indebtedness of said First National Bank to this defendant, it owes considerable sums as interest. The expense of maintaining, repairing and operating said properties will be considerable and the liquidation of the same may extend over a period of years, with a consequent increase in interest and maintenance charges. This defendant would welcome the opportunity of selling all of said prop-

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Defendant further shows that under the notes and other obligations of said First National Bank of Dublin which it holds, any and all collateral in the hands of the Federal Reserve Bank stands pledged for each and every item of indebtedness. Defendant has the right, under its collateral notes, to sell all of said collateral or any of the same, but it has heretofore refrained from so doing and has earnestly endeavored to liquidate said collateral to the best possible advantage. Any compromise which has been made of any of said collaterals has been approved by the Receiver of the said First National Bank of Dublin and by the Comptroller of the Currency of the United States and authorized by an order of the United States Courts. Defendant says that it has taken no security or anything of value from said First National Bank except bona fide and in consideration of loans and advances, and that it will be exceedingly fortunate over a period of time to prevent a substantial loss.

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Defendant respectfully submits that the creditors of said First National Bank of Dublin are represented by a Receiver, who is a sworn officer of the United States; that the actings and doings of said Receiver are controlled and supervised by the Comptroller of the Currency of the United States, one of its most important officials; that any complaint or right of complaint or cause of action arising by reason of any transaction heretofore had between said First National Bank of Dublin and said Federal Reserve Bank rests in said Receiver and/or in the Comptroller of the Currency. Every record and the details of every transaction heretofore had between said two banks has been open to the Comptroller of the

Currency and the Receiver of said First National Bank and, as pointed out in the bill filed by complainants, no objection has been raised by the said authorities to any of such transactions. This defendant has refrained from exercising its rights of foreclosure of said mortgages for more than twelve months since said First National Bank suspended. In the interim it has advanced money to keep in good standing the first mortgages on said properties. The town property is depreciating. Some direction must be given to the farming operations on said farms. The liquidation of said First National Bank cannot be indefinitely postponed. With further delay in foreclosure, this defendant might not be justified in bidding for said properties as much as it would be willing to bid now, and the delapidation consequent upon continuing neglect will work against outside bidding. Defendant has no desire to acquire said properties provided an adequate bid can be obtained from any other source. It simply wishes to protect itself, as well as the creditors of said First National Bank, by taking over said properties at a fair but not an excessive valuation and preserving the same to the end that the defendant's loss may not be increased through the neglect and deterioration of said properties.

WHEREFORE, this defendant respectfully requests that the prayers of said petition be denied and that a temporary restraining order be refused to the end that said properties may promptly be re-advertised for sale and sold at public outcry at the earliest possible moment.

Defendant's Attorneys.

GEORGIA, FULTON COUNTY.

Before me the undersigned, a notary public in and for said County, personally appeared E. R. Black, who, being duly sworn, deposes and says that he is Governor of the Federal Reserve Bank of Atlanta and, as such officer, is authorized to make this affidavit.

Deponent says that he has read the above and foregoing answer and that the averments therein contained are true, except in so far as said averments are made upon information and belief, and that as to such averments so made upon information and belief, deponent verily believes the same to be true.

Sworn to and subscribed before me,
this the ____ day of _____, 19 __.

Notary Public