

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, May 29, 1944, at 12:30 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Dreibelbis, General Attorney
Mr. Pollard, Assistant Director of the
Division of Examinations

Mr. McKee stated that on Saturday, May 27, 1944, Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, called him on the telephone and reported that Mr. A. P. Giannini, Chairman of the Board of Transamerica Corporation, was very much disturbed by reports which had come to him from branch managers and others and by the discussions of shareholders of banks affiliated with the Giannini interests regarding an antitrust investigation being conducted by the United States Department of Justice. Mr. McKee said that apparently Mr. Giannini was very critical because of a feeling on his part that the Board and particularly the Chairman was responsible for the investigation. He also said that the record was clear that the Board knew nothing about the investigation until sometime ago when Mr. Clerk called on the telephone to say that a representative of the Department of Justice had called at the Federal Reserve Bank for certain

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information desired in the investigation, at which time, upon checking with the Department of Justice, the Board learned that the investigation had been authorized. Mr. McKee went on to say that it was then suggested to Mr. Clerk that he inform the representative of the Department of Justice that the best way to proceed would be for him to refer his requests for information to the Department of Justice in Washington so that the desired information could be obtained from the Board's offices.

Mr. Dreibelbis stated that in accordance with that procedure the Department of Justice asked to see certain information contained in the Board's files, which, with the approval of the Board, had been made available to the Department.

Mr. McKee stated that Mr. Clerk was going to talk to Mr. Giannini this afternoon and assure him that the Board had nothing whatsoever to do with the institution of the antitrust investigation being conducted by the Department of Justice.

Mr. McKee went on to say that the Board had received through the Federal Reserve Bank of San Francisco an application of the Bank of Nevada, Las Vegas, Nevada, for membership in the Federal Reserve System, and that the Federal Reserve Bank had made no recommendation and had not conducted the examination usually made in connection with such applications but had submitted an inquiry whether, as provided in section 4 of Regulation P, Holding Company Affiliates--Voting Permits, the Board would first require Transamerica Corporation, which

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would become a holding company affiliate upon the admission of the Bank of Nevada to membership in the Federal Reserve System, to file an application for a voting permit to vote the stock of the State bank. Mr. McKee added that, notwithstanding the agreement that had been reached by the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Board, the Federal Deposit Insurance Corporation had insured the deposits of the Bank of Nevada, and that presumably, if the Board were to withhold membership, Transamerica Corporation would make an issue of the matter.

The second question before the Board, Mr. McKee said, was a letter received from Mr. Clerk under date of May 23, 1944, stating that the Bank of America National Trust & Savings Association was demanding the right to cast a vote in the nomination and election of a Class B director of the Federal Reserve Bank of San Francisco to succeed Mr. William G. Volkmann, deceased, and the circumstances were substantially the same as existed in connection with the question which arose with respect to the election of a Class A director of the Reserve Bank last year. At that time, in a telegram dated November 4, 1943, the Board took the position that, since Transamerica Corporation had designated the First Trust and Savings Bank of Pasadena to participate in the election and since such information as the Board had did not indicate that the control of Bank of America N. T. & S. A. had changed by reason of the reduction in the number of shares of the bank held by Transamerica Corporation nor that control was exercised in any different

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manner than was the case when the application for a voting permit was granted to the corporation, it would violate the spirit as well as the letter of the law for both Bank of America N. T. & S. A. and First Trust and Savings Bank of Pasadena to participate in the election, and accordingly the Federal Reserve Bank of San Francisco was requested to advise the Bank of America N. T. & S. A. that the Board had ruled the bank ineligible to participate in the election.

Mr. Dreibelbis stated that the application of the Bank of Nevada for membership raised directly the question whether the Board would be willing to grant a permit to Transamerica Corporation to vote the stock of the Bank of Nevada when it was considering the issuance of an order to show cause why the existing permit held by Transamerica Corporation should not be canceled, and that it might weaken the Board's position if it should admit the Nevada bank to membership or require the filing of an application to vote the stock of the Bank of Nevada while the other matter was pending.

The whole matter was considered in the light of the action that the Board should take in the circumstances to best serve the public interest, and it was agreed that no decision should be reached at this time with respect to the application of the Bank of Nevada for membership in the System but that a wire should be sent to Mr. Clerk stating that, for the reasons set forth in the Board's telegram of November 4, 1943, the Bank of America National Trust and Savings Association was not authorized to cast a vote in the election of a Class B director to succeed Mr. Volkmann.

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The telegram sent in accordance with this action read as follows:

"The Board has considered the letter dated May 23, 1944 addressed by Bank of America, N. T. & S. A. to Chairman Grady with respect to the election of a Class B director to serve during the unexpired term of William G. Volkmann, deceased, and demanding that it be furnished the required forms in order that it may vote in the election of such a director as a bank in Group One. For the purpose of electing Class A and Class B directors, the Board of Governors, as required by the Federal Reserve Act, has classified member banks of the Twelfth District into three general groups. Under the classification thus made by the Board, Bank of America N. T. & S. A. is included in Group One, subject to the proviso at the end of the 16th paragraph of section 4 of the Federal Reserve Act: 'That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate'. Transamerica Corporation continues to hold a voting permit granted on its application to vote the stock of Bank of America, N. T. & S. A., and it has designated First Trust and Savings Bank, Pasadena, to participate in the election. The Board continues to hold the views expressed in its wire of November 5, 1943, the contents of which were conveyed to Bank of America, N. T. & S. A. Please convey the contents of this wire also to Bank of America, N. T. & S. A."

Mr. McKee stated that Chairman Eccles was having lunch at the Federal Reserve Bank of San Francisco today and that he proposed to inform the Chairman of the developments that had taken place in connection with this whole matter so that he would be in a position to discuss it if he should find it necessary to do so. The other members of the Board present were in agreement that that should be done.

At this point Messrs. Thurston, Dreibelbis, and Pollard withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 27, 1944, were approved unanimously.

Memorandum dated May 27, 1944, from Mr. Morrill submitting the resignation of Mrs. Edith Stem as a baker in the cafeteria, Office of the Secretary, to become effective as of the close of business on May 29, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted as recommended.

Letter to the Joint Committee on Salaries and Wages reading as follows:

"Under the procedure established by General Order No. 19 of the War Labor Board and the authority granted by the Commissioner of Internal Revenue, transmitted herewith are the original and four copies of three certificates of the Federal Reserve Bank of Richmond, with respect to increases in annual salaries of four officers of that Bank and its Branches in Baltimore and Charlotte.

"These increases have been approved by the Board of Governors of the Federal Reserve System effective June 1, 1944."

Approved unanimously.

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

"In accordance with the request contained in your letter of May 20 advising of the program recommended by the Executive Committee, the Board of Governors approves payment of salaries to the following officers at the rates shown, which are the rates recommended by the Executive Committee as reported in your letter. This approval is for the period

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ending April 30, 1945, and is effective as of the dates the officers assume their new duties, subject, of course, to formal action of the directors in making the appointments and fixing the salaries.

	Annual Salary
H. N. Mangels Vice President	\$9,500
J. M. Leisner Cashier	7,500
R. E. Everson Asst. Manager, Salt Lake City Branch	6,000
R. H. Morrill Asst. Manager, Seattle Branch	5,000

"Please advise the Board as to the dates the appointments and the increased salaries become effective.

"The Board also approves the designation of Mr. Mangels as officer in charge of the Bank Examination Department and his appointment as an examiner for the Federal Reserve Bank of San Francisco.

"Following your recent visit here, Governor McKee reported to the Board the present and proposed program for the supervision of the Bank Examination Department as you presented it, and it is on the basis of such report that the Board earlier indicated its informal approval, and now formally approves the designation of Mr. Mangels as officer in charge of the Bank Examination Department. To complete the record, reference is made to the letter which Mr. McKee has sent you today regarding his report to the Board."

Approved unanimously, together with
the following additional letter to Mr. Day
prepared for the signature of Mr. McKee:

"You will receive a letter from the Board formally approving the designation of Herman Mangels as officer in charge of the Bank Examination Department, as well as the increases in salary recommended in your letter of May 20.

"Since the designation was approved by the Board on the basis of my report of the discussions which you and I had regarding the whole program, I want you to know, and the record to show, the substance of my report to the Board and the understanding upon which the Board's action was taken.

"First, however, I want to repeat that the Board's reservation in approving the designation when the proposal was first advanced was due to the fact that, according to our information, Mr. Mangels had had no experience in bank examination and bank supervisory work, or experience, such as Dick West had had, in dealing with bankers regarding their banking problems. There was no question about Mr. Mangels' abilities as an operating officer of your Bank. In fact, his abilities in this field are

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"well known. There was, however, the question as to how his training and experience had fitted him for the specialized and important responsibilities of bank examination and supervision. You will recall I also raised the question with you as to the effect on the morale of the Bank Examination Department if an officer without experience related to the work of the department were placed in charge.

"As I told you, neither the Board nor any member of the Board had any candidate or any suggestion as to an individual to be in charge of the Department. The Board's sole concern is that the important responsibilities of the Reserve Bank in the field of bank examination and supervision be in capable hands and properly discharged.

"All this I reported to the Board.

"I also reported that you had advised me definitely:

"1. That Mr. Clerk would continue his special attention to the examination work, and Mr. Mangels would have the benefit of that advice and counsel, which we here have always respected, in the supervision of the Department.

"2. That the designation of Mr. Mangels as officer in charge of the Bank Examination Department was proposed with the idea that it would be a temporary arrangement until your retirement.

"3. That in the meantime every opportunity would be given to develop someone within the Bank with proper background to assume the responsibilities as officer in charge of the Department when the adjustments are made following your retirement and that you had indicated that Mr. Volberg, Chief Examiner, would be the logical man.

"4. That the situation would be so handled so as not to create any morale problem in the Bank Examination Department.

"5. That the proposed promotion of Mr. Mangels and designation as officer in charge of the Bank Examination Department was part of a program of promotion and development and involved a number of other promotions as well.

"6. That the proposed assignment of Mr. Mangels would round out his experience and development and provide an intermediate level of supervision and control between Mr. Clerk and the present Chief Examiner, which would be helpful during the period of preparation and training of the latter.

"It was with this understanding that the Board approved the designation of Mr. Mangels as an integral part of the program for

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"executive development and of the present and future program for supervision of the Bank Examination Department.

"When the program was presented in detail, as outlined above, the Board was pleased to cooperate with your suggestions as indicated, and to approve the program in its entirety as submitted."

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of May 19, 1944, regarding the eligibility of notes of the Commodity Credit Corporation for rediscount by Federal Reserve Banks.

"The Board has not had occasion to rule on the question whether such notes are eligible for discount under the second paragraph of section 13 of the Federal Reserve Act or as collateral for notes of member banks under the eighth paragraph of that section.

"It is understood that, to a large extent, the proceeds of notes of the Commodity Credit Corporation are used by the Corporation for the purpose of making loans to farmers on various agricultural commodities; but that such proceeds are also used for other purposes. As you know, prior to 1937 the Board's Regulation A contained a provision expressly prohibiting the discount of paper the proceeds of which have been or are to be advanced or loaned to some other borrower. However, Regulation A, as revised effective October 1, 1937, omitted this provision; and in rulings published in the 1937 Federal Reserve Bulletin, page 1190, and the 1938 Federal Reserve Bulletin, page 86 (F. R. L. S. #4791, 4792) the Board expressed the opinion that notes given to a member bank the proceeds of which are to be loaned to other borrowers for commercial, industrial, or agricultural purposes are eligible for discount if they meet the applicable requirements of the regulation as to maturity and in other respects.

"We do not understand from your letter that you are requesting a ruling on the question at this time, but if you should feel, either now or later, that a ruling on the question is needed, we will be glad to give it prompt consideration if you will so advise us. In doing so, it will be helpful if you will let us have the views of your Counsel in the matter."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Paul Johnson
Vice Chairman.