

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, January 31, 1945, at 2:30 p.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Dreibelbis, General Attorney
Mr. Vest, Assistant General Attorney
Mr. Cagle, Assistant Director of the
Division of Examinations
Mr. N. L. Leachman, Special Counsel

ALSO PRESENT: Mr. Ira Clerk, First Vice President of
the Federal Reserve Bank of San Francisco
Mr. A. C. Agnew, General Counsel for the
Federal Reserve Bank of San Francisco
Mr. C. A. Reinholdt, Examiner for the Fed-
eral Reserve Bank of San Francisco

Mr. Dreibelbis stated that, as one of the means of handling the situation with respect to Transamerica Corporation and its affiliated banks, he and Mr. Leachman were prepared to recommend to the Board a procedure which would involve the termination of all outstanding voting permits issued pursuant to the provisions of Regulation P, Holding Company Affiliates - Voting Permits; a revision of that regulation; and a revision of the standard form of application for a voting permit which would combine the present application and agreement. Mr. Dreibelbis also said that he and Mr. Leachman had written an opinion

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relating to the authority of the Board to terminate all outstanding voting permits and to take the other steps contemplated in the revision of Regulation P. Thereupon, Mr. Dreibelbis read the opinion as contained in a memorandum addressed to the Board of Governors by him and Mr. Leachman under date of January 31, 1945, entitled, "Revision of Regulation P and Standard Application for Voting Permit by Holding Company Affiliates." There were attached to the memorandum (1) a suggested form of letter to all holding company affiliates which would state that the Board was considering terminating all existing voting permits and requiring each holding company affiliate to file a new application for a voting permit, and that copies of the revised regulation and form of application were being submitted to the holding company affiliates for such recommendations and comments as they might wish to make; (2) a draft of a suggested revision of Regulation P, and (3) a draft of a suggested revision of the standard form of application for a voting permit.

Mr. Dreibelbis went on to say that he and Mr. Leachman had also prepared a memorandum outlining the four courses which appeared to be open to the Board in connection with the holding company situation and that he would ask Mr. Leachman to present this to the Board.

Copies of two memoranda entitled "Four Courses Open to Board" and "Resulting Effect on Transamerica of Terminating all Outstanding

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Permits," were distributed to the members of the Board and Mr. Leachman read them, pointing out that the first and most important step was to seek remedial legislation which was necessary and desirable irrespective of other plans. He said the second step recommended by him and Mr. Dreibelbis, namely, termination of all voting permits, should go forward simultaneously with efforts to obtain legislation and was desirable for the reasons outlined in the memorandum. The third step to be taken by the Board, he said, would be a Clayton Act proceeding to require Transamerica Corporation to dispose of its stock in the Citizens National Bank in Los Angeles, California, but that this step should be taken only in the event that efforts to obtain new legislation, the program for terminating all permits, and the negotiations with the attorneys for Transamerica Corporation should fail. He added that a proceeding looking toward the revocation of the voting permit issued by the Board to Transamerica Corporation was recommended only as the last resort after all other courses of action had failed as it was felt that such a proceeding was the least desirable of all planned.

Chairman Eccles referred to the conference which he had at the Treasury yesterday with respect to holding company legislation and stated that he expected that the Board would know in the course of the next few days what the possibilities were for bank holding company legislation at this session of Congress.

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There was a discussion of the situation with respect to possible legislation and of the recommendation of Messrs. Dreibelbis and Leachman with respect to the termination of all outstanding voting permits. During the discussion, Mr. Dreibelbis stated that if this recommendation were approved it was expected that the proposed letter to the holding company affiliates, the revised Regulation P, and the revised form of application for voting permit would be cleared with the appropriate members of the Board's staff and that these documents would then be resubmitted to the Board for action. He thought that there was a real possibility of the proposed procedure resulting in a settlement of the controversy with Transamerica Corporation without litigation, that in any event it would furnish a strong basis for any request for legislation that the Board might make, and that the procedure would not be expected to take the place of the informal discussions which Mr. Dreibelbis had been having with counsel for Transamerica but rather that such steps would accelerate the negotiations with the possible result that Transamerica might suggest an agreement which would make it unnecessary to go so far as to terminate the outstanding permits.

Mr. McKee stated that he had reviewed the recommendations of Messrs. Dreibelbis and Leachman very carefully and that while he had had reservations regarding them in the beginning he had come to the conclusion that they should be approved and that the Board should

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proceed in accordance with them as promptly as possible.

At the conclusion of the discussion, upon motion by Mr. McKee, it was agreed unanimously that Messrs. Dreibelbis and Leachman should review their recommendations and that there should be submitted for further action by the Board at a special meeting to be held on the afternoon of Friday, February 2, 1945, (1) a revised draft of letter to all holding company affiliates; (2) a revision of Regulation P, and (3) a revision of the standard form of Application for a Voting Permit.

Mr. McKee stated that it had been the practice in the past whenever an examination of a holding company affiliate was completed to send a copy of the examination report to the bank holding company; that if a copy of the report of the last examination of Transamerica Corporation were made available to the corporation it might aid it in the controversy with the Board, and that, therefore, the question was raised whether it would be desirable for the Board to adopt a procedure under which reports of examinations of holding company affiliates would not be made available to them, it being understood that whenever necessary a letter would be addressed to the holding company affiliate outlining the criticisms and other matters developed during the examination which it was thought should be brought to the attention of the holding company affiliate.

Mr. Dreibelbis expressed the opinion that, if a copy of the last report of examination of Transamerica Corporation were delivered

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to the corporation it might raise collateral questions which would only confuse the main issues involved in the present controversy. Mr. Cagle said that it was difficult to write a report of examination of a holding company affiliate without referring therein to confidential credit information developed in connection with the examination of affiliated member banks, that there had always been a question as to the propriety of including this information in the report of examination of the holding company, and that if the procedure suggested by Mr. McKee were followed this difficulty could be avoided.

Mr. McKee moved that the Federal Reserve Banks be advised that until further notice no reports of examination of holding company affiliates of member banks were to be delivered to the holding company affiliates and that this procedure was to apply to any reports of examination which had not yet been delivered.

Mr. McKee's motion was put by the Chair and carried unanimously.

At this point Messrs. Dreibelbis, Cagle, Leachman, Clerk, Agnew, and Reinholdt withdrew from the meeting.

Mr. Draper stated that this morning Senator Bailey called on the telephone to say that he expected to make a statement on the floor of the Senate tomorrow, that he had noticed the statement made by Henry A. Wallace with respect to V and T loans when he appeared before the Senate Commerce Committee in connection with his nomination as Secretary of Commerce, and that he (Senator Bailey) would like to have a brief

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description of the V-T loan program for use in that connection. Mr. Draper also said that at his request Messrs. Vest and Smead prepared such a statement which was telephoned to Senator Bailey's office. He added that he was bringing the matter to the attention of the members of the Board so that they would be informed of the request.

At Mr. McKee's suggestion it was agreed that a copy of the statement should be sent to Senator Bailey with a confirming letter.

At this point Mr. Vest left the meeting.

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 30, 1945, were approved unanimously.

Memorandum dated January 31, 1945, from Mr. Morrill recommending that the basic salary of S. R. Carpenter, Assistant Secretary, be increased from \$9,000 to \$10,000 per annum.

Approved unanimously, effective February 1, 1945.

Memorandum dated January 31, 1945, from the Personnel Committee recommending that the basic salary of L. P. Bethea, Director of the Division of Administrative Services, be increased from \$9,000 to \$10,000 per annum, effective February 1, 1945.

Approved unanimously.

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Memorandum dated January 27, 1945, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Bruno Foa, a member of the research staff engaged in the Division's special work for the Department of State, to become effective as of the close of business on January 31, 1945, and recommending that the resignation be accepted as of that date with the understanding that appropriate payment will be made for the accumulated and accrued annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

Letter to Mr. Hilkert, Assistant Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Philadelphia, involving the establishment of four new positions, as requested in your letter of January 17, 1945."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors approves the appointments of Messrs. Walter Harnischfeger, Martin H. Kennelly, Edward M. Kerwin, G. Barret Moxley, and James L. Palmer as members of the Industrial Advisory Committee for the Seventh Federal Reserve District to serve for terms of one year each beginning March 1, 1945, in accordance with the recommendation of your Board of Directors, as reported in your letter of January 26, 1945."

Approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of San Francisco and its Branches at Los Angeles, Portland, and Seattle, as submitted with your letter of January 18, 1945."

Approved unanimously.

Letter to the "Hunterdon County Trust Company", Califon, New Jersey, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to the Presidents of all of the Federal Reserve Banks reading as follows:

"There is enclosed for your information a copy of a memorandum dated January 27, 1945, signed by Theodore Chase, Lieutenant, USNR, Counsel for Finance Division of the Navy Department, containing interpretations of the Army-Navy Joint Termination Regulation, issued by the Office of the General Counsel of the Navy Department, with respect to the inclusion of interest and commitment fees in termination claims.

"In connection with the interpretation relating to waived interest, the Finance Division of the Navy Department gave us the following example taken from a memorandum it prepared for internal circulation:

'If the interest waived after termination amounts to \$1,000 and the interest on the contractor's claim amounts to only \$300, the contractor gets no interest on his claim but the

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'excess of \$200 is not deducted from the principal amount of the claim.'

"While the Army does not publish official interpretations of the Joint Termination Regulation, the Advance Payment and Loan Branch, Special Financial Services Division, has indicated to us that it does not disagree with the interpretations issued by the Office of the General Counsel of the Navy Department."

Approved unanimously.

Letter to Senator Elmer Thomas prepared for the signature of Chairman Eccles in accordance with the action taken by the Board on January 26, 1945, and reading as follows:

"This letter is an interim reply to your letters of January 19, 1945, addressed to the individual members of the Board of Governors, in which you request that, in connection with the preparation of proposed legislation to reduce the reserves required to be maintained by the Federal Reserve Banks, consideration be given to the provisions of Bill S. 183 which would authorize the carrying of obligations of the United States owned by banks, trust companies, savings and loan associations, and insurance companies, at their par value.

"The provisions of Bill S. 183 raise some controversial questions which require careful consideration and the Board would like to have further time to review them and to express a carefully considered opinion. The Board, therefore, feels that it would be preferable if the subject matter of S. 183 were not added to the proposed legislation to reduce reserves required to be maintained by Federal Reserve Banks and to extend their authority to pledge Government securities as collateral for Federal Reserve notes, as that legislation is believed to be essentially non-controversial and it should be enacted without delay. We understand that the Treasury agrees with this view of the matter and we trust that this will be satisfactory to you. We hope to be able to advise you of our conclusions as to your proposals at an early date."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.