

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 7, 1946, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. Draper  
Mr. Evans  
Mr. Vardaman

Mr. Carpenter, Secretary  
Mr. Hammond, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Chairman  
Mr. Paulger, Director of the Division of Examinations  
Mr. Smead, Director of the Division of Bank Operations  
Mr. Vest, General Counsel  
Mr. Thomas, Director of the Division of Research and Statistics  
Mr. Horbett, Assistant Director of the Division of Bank Operations  
Mr. Wilkes, Federal Reserve Examiner

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, which would state that the Board had approved applications received from Bank of America National Trust and Savings Association, San Francisco, California, for permission to establish branches at Manila, Philippine Islands, and Shanghai, China. Attached to the draft of letter was a memorandum dated April 19, 1946, from the Division of Examinations submitting pertinent information in connection with the applications of the national bank and reasons for the recommendations of the Federal Reserve Bank of San Francisco and the Board's Division of Examinations that the applications be

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approved. There was also attached a letter dated April 12, 1946, from the Comptroller of the Currency in which it was stated that, in the absence of an affirmative and convincing showing that the foreign trade in the area served by the national bank would suffer without such branch facilities, it was the opinion of the Comptroller that the diversion of capital funds to newly undertaken foreign activities might be unwise in view of the capital position of the bank.

Mr. Vardaman stated that he did not feel that the information submitted with the applications was adequate to establish satisfactorily the need or desirability for the proposed branch facilities, and since the office of the Comptroller of the Currency was opposed to granting the requested permission he (Mr. Vardaman) did not want to vote on the matter until full information had been developed and there had been an opportunity to discuss the matter further with Mr. Delano. He made it clear that he was not opposing the granting of the authority requested but that it was his feeling that action should not be taken by the Board until it had full information with respect to the various aspects of the matter.

During a discussion of the position of the Comptroller of the Currency and the information contained in the file with respect to the capital position of Bank of America National Trust and Savings Association, Chairman Eccles stated that before Mr. Paul V. McNutt, United States High Commissioner to the Philippines, left for the Philippines

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recently he expressed the hope that the Board would see fit to authorize the establishment by the Bank of America of the branch in Manila because of the urgent need of additional banking facilities in the Philippines as a basic part of the entire rehabilitation program for the islands, that it was expected that the west coast would have a very large volume of business with the Philippine Islands and that the present facilities would not be large enough to handle that volume. Chairman Eccles also said that, in view of the strong financial position of the Bank of America, it would be difficult to refuse permission to that institution to establish branches in the Far East when The National City Bank and The Chase National Bank, both of New York, had facilities in that territory; that the policies of the Transamerica Corporation to which the Federal bank supervisory agencies had objected were not involved in the consideration of the applications for permission to establish two foreign branches, and that therefore if the requested permission was refused because of the expansion policies of Transamerica Corporation in the United States the Board might be vulnerable to the accusation that Transamerica Corporation had already made that the Federal bank supervisory agencies had discriminated against Transamerica interests.

Mr. Vardaman expressed the thought that in considering the applications the Board was in somewhat the same position as the Comptroller of the Currency in considering an application for the issuance

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of a charter to a new national bank or a State Superintendent of Banks in considering an application for a charter for a State bank and that action should not be taken until the Board had full information as to the need for the new facilities and the advisability of their establishment.

There was a discussion of the additional information that might be obtained by the Board and it was agreed unanimously that (1) a letter should be addressed to Commissioner McNutt asking him to make an investigation in Manila for the purpose of ascertaining the views of the banking and industrial concerns in the Philippines as to the need for additional banking facilities there, (2) a formal request should be submitted to the State Department for a statement of the need for the requested facilities and any other comment that the Department might wish to make, (3) Mr. Goodman, a Federal Reserve Examiner of the Board's Division of Examinations, who went to Manila in 1945 as Chief Examiner in connection with the rehabilitation of the Philippine banking system, should be asked for a memorandum on conditions in the Philippines which might have a bearing on the Board's decision, (4) the Federal Reserve Bank of San Francisco should be asked to obtain more complete information from the Bank of American National Trust and Savings Association as to the extent and character of the trade between the west coast and the Far East and the business of the Bank's customers which it was felt would be fostered by the additional facilities, and (5) a request should be made of the Export-Import Bank for any comments that it might have to make with respect to the matter.

In taking this action it was understood that after the additional information referred to above was in the hands of the Board there would be further discussion with the Comptroller

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of the Currency and the Treasury of the question whether, on the basis of all the information available and the policy of the Federal bank supervisory agencies with respect to further domestic expansion of Transamerica interests, the applications filed by Bank of America National Trust and Savings Association should be granted.

During the discussion, question was raised whether the views of American banking institutions which now have branches in the Far East should be requested and it was agreed that no decision should be made in that connection until after the information requested from Mr. McNutt and the State Department had been received as it was possible that all of the information the Board would need to reach a decision would be supplied from those sources.

At this point Mr. Evans left the meeting to keep another appointment and Mr. Wilkes also withdrew.

In accordance with the action taken by the Board on April 30, 1946, there were presented for consideration at this meeting drafts of letters to Mr. Prochnow, Acting Secretary of the Federal Advisory Council; Mr. Sproul, Chairman of the Presidents' Conference; and the Presidents of all the Federal Reserve Banks relating to the pending proposal to terminate the reserve city designations of the 24 cities in the United States in which there are no Federal Reserve Banks or branches.

The letters were discussed and approved unanimously in the following form:

Letter to Mr. Prochnow:

"The Board has received your letter of April 22, 1946, advising that the next meeting of the Federal Advisory Council will be held on May 19-20, 1946, and requesting a list of the

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"subjects which the Board wishes the Council to discuss at that meeting.

"When the executive committee of the Council met with the Board on April 24, 1946, there was a discussion of the pending proposal to terminate the reserve city designations of the 24 cities in which there are no Federal Reserve Banks or branches. The Board had hoped that the member banks concerned, in expressing their reasons for their position upon the proposal, would offer suggestions which might serve as a basis for arriving at a formula or set of principles which could be used hereafter in determining what cities should be designated as reserve cities if the pending proposal proved to be unsatisfactory.

"In the course of the discussion during the meeting with the executive committee of the Council, Mr. Brown suggested possible tests for determining reserve city designations, and the Board will be glad if the Council will consider this matter more fully at its next meeting and suggest to the Board of Governors a formula or set of principles which could be used under the existing provisions of section 19 of the Federal Reserve Act as a satisfactory basis for determining what cities should be classified as central reserve cities and reserve cities, respectively.

"The Board is asking the Presidents of the Federal Reserve Banks to consider this question and to submit their recommendations at an early date. A copy of this letter is being sent to them.

"The comment was made during the course of the meeting of the executive committee with the Board that many banks in the 24 reserve cities were disturbed by the possibility that the Board already had reached a decision to discontinue the reserve city designations of cities other than those in which the Federal Reserve Banks or branches are located. While the Board has felt for a long time that the present classification is inconsistent and illogical, it has not made a decision on what should be done to meet the problem. Before reaching a decision the Board will make a study of the whole matter, giving consideration to the views which are being received from member banks and the comments and suggestions to be submitted by the Federal Advisory Council and the Presidents of the Federal Reserve Banks. In the meantime, the Federal Reserve Banks and the members of the Council are at liberty to advise any member banks as to the present status of the matter and that the Board will not take any action until the study referred to above has been completed."



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Letter to Mr. Sproul:

"There is enclosed a copy of a letter which the Board has sent today to the Federal Advisory Council with respect to the proposal to terminate the reserve city designation of the 24 reserve cities in which there are no Federal Reserve Banks or branches.

"The Board will appreciate it if at their next meeting, which is scheduled to be held in Washington during the early part of June, the Presidents will discuss this whole subject in the light of the views at the respective Federal Reserve Banks and of the letters received from member banks in their districts in response to the Board's letter of March 19, 1946, and suggest to the Board a formula or set of principles, within the existing provisions of Section 19 of the Federal Reserve Act, which in the opinion of the Presidents would be a satisfactory basis for determining what cities should be designated as reserve cities. A copy of any recommendations received from the Federal Advisory Council in response to the request contained in the attached letter will be sent to you before the next meeting of the Presidents' Conference."

Letter to Presidents of all Federal Reserve Banks:

"There is enclosed a copy of a self-explanatory letter which the Board has sent today to the Federal Advisory Council on the subject of the proposal to terminate the reserve city designation of the 24 reserve cities in which there are no Federal Reserve Banks or branches.

"A letter has also been sent to Mr. Sproul, as Chairman of the Presidents' Conference, stating that the Board will appreciate it if at their next meeting, which is scheduled to be held in Washington during the early part of June, the Presidents will discuss this whole subject in the light of the views at the respective Federal Reserve Banks and of the letters received from member banks in their districts in response to the Board's letter of March 19, 1946, and suggest to the Board a formula or set of principles, within the existing provisions of Section 19 of the Federal Reserve Act, which in the opinion of the Presidents would be a satisfactory basis for determining what cities should be designated as reserve cities."

In connection with the above matter, unanimous approval was also given to the following

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letter to Mr. Young, President of the Federal Reserve Bank of Chicago, and it was understood that in view of Chairman Eccles' conversation with Congressman Crawford of Michigan, as reported by Chairman Eccles at the meeting of the Board on March 19, 1946, he would be at liberty to advise Mr. Crawford of the steps being taken by the Board in connection with the problem of reserve city designations:

"As you know, the Board recently afforded to member banks located in reserve cities in which there are no Federal Reserve Banks or branches an opportunity to submit their views as to whether or not the designation of their respective cities as reserve cities should be terminated. In response a large number of these banks have submitted their comments on the proposal and most of them are opposed to such termination. In view of the wide diversity of opinion in this matter, the Board feels that it should not reach a decision without full consideration. Accordingly, the Board has asked the Federal Advisory Council to consider the matter and at its next meeting with the Board, to be held May 20, to suggest a formula or set of principles which could be used under the existing provisions of law as a satisfactory basis for determining what cities should be classified as central reserve cities and reserve cities, respectively. In addition, the Board is today addressing a letter to the Presidents of the Federal Reserve Banks with respect to the matter and is asking the next Conference of Presidents, which is to be held in Washington the early part of June, to discuss this whole subject and also to suggest a formula or set of principles which could be used as a satisfactory basis for this purpose.

"In order that Mr. H. J. Stoddard, President of the Michigan National Bank, Lansing, Michigan, may be kept informed with respect to this matter, it will be appreciated if you will telephone to him and advise him of the developments indicated above."

At this point, Messrs. Paulger, Smead, Vest, Thomas, and Horbett 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 6, 1946, were approved unanimously.

Memorandum dated May 6, 1946, from Mr. Carpenter, recommending that Miss Adaline R. Beeson be appointed as a File Clerk in the Secretary's Office on a temporary basis for a period of not to exceed 6 months, with basic annual salary at the rate of \$1,968 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated (1) it is expected that, if Miss Beeson's services prove satisfactory, a recommendation will be made that her appointment be made permanent, (2) that, due to the need for assistance in the Files Section, this recommendation was submitted without awaiting a full check of the applicant's references and with the understanding that, should anything derogatory develop in the Board's investigation, Miss Beeson's employment would be terminated immediately, and, (3) it is contemplated that Miss Beeson will become a member of the Board's retirement system.

Approved unanimously.

Memorandum dated May 3, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mr. Richard F. Hart be appointed as a Research Assistant in that Division on a temporary indefinite basis, with a salary at the rate of \$2,320 per annum, effective as of the date upon which he enters upon the perform-

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ance of his duties after having passed the usual physical examination. The memorandum also stated that Mr. Hart would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated May 6, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mr. James L. Zimmerman, a Guard in that Division, and recommending that the resignation be accepted, effective at the close of business May 10, 1946, and that proper payment be made for any accrued annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

Memorandum dated May 6, 1946, from Mr. Bethea, Director of the Division of Administrative Services, stating that Governor Vardaman had requested that one of the Board's chauffeurs drive his automobile to St. Louis, Missouri, so as to reach there not later than the evening of Thursday, May 9, in order that it may be available for Mr. Vardaman's use on an official trip through the southeastern states covering a period of two or three weeks. The memorandum also stated that Mr. J. Frank Bell is available for this assignment and submitted for approval a letter to Mr. Bell containing the necessary travel authorization.

Approved unanimously.

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Letter to "Elmer Trust Company", Elmer, New Jersey, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in 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.

Memorandum dated May 3, 1946, from Mr. Parry, Director of the Division of Security Loans, reading as follows:

"The Board has previously approved an arrangement by which Dale M. Lewis has been borrowed from the Federal Reserve Bank of St. Louis to assist for several months in the administration of Regulation W.

"As now planned, Mr. Lewis will make several trips in connection with the regional conferences of Federal Reserve Banks which are to be arranged for the discussion of enforcement procedure. I recommend that the Board approve payment of amounts spent by him while traveling in connection with these conferences for transportation and hotel accommodations and for such other incidentals as are allowed for by the Board's travel regulations not including the per diem in lieu of subsistence.\* These amounts would be charged to the 'Miscellaneous' item in the 1946 budget of the Division of Security Loans which would be increased in the required amounts as expended.

"During the last two weeks of June, Mr. Lewis will be attending the Graduate School of Banking, Rutgers University. It was originally contemplated that the St. Louis bank would not be reimbursed for any expenses during this period. However, Mr. Lewis will have to retain his room in a private home in Washington in order to have a place to stay when he returns. I recommend that the Board

\*No allowance is made for meals because the Board is making a payment of \$240 per month to cover the extra expense incurred by Mr. Lewis while on duty with the Board.

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"approve payment of the room rental for this period which will be \$40.00, that the amount be charged to the 'Miscellaneous' item in the 1946 budget of the Division of Security Loans, and that the authorized budget be increased accordingly.

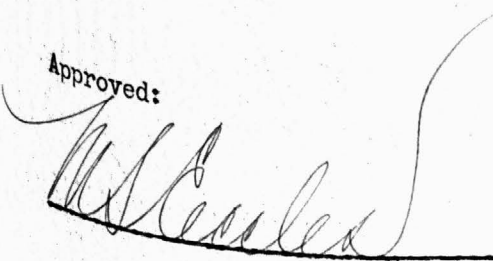
"The above items will be handled in the same way as Mr. Lewis' other expenses: he will collect from the Federal Reserve Bank of St. Louis which will be reimbursed by the Board on the submission of vouchers."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary

Approved:

  
Chairman.