

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, May 13, 1946, at 11:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Hammond, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Paulger, Director, Division of  
Examinations  
Mr. Vest, General Counsel  
Mr. Cagle, Assistant Director,  
Division of Examinations  
Mr. Townsend, Assistant General Counsel

As stated in the minutes of the meeting on May 8, 1946, Mr. Vardaman was absent on official business.

Mr. Morrill stated that following the meeting of the Board on May 9, 1946, at which consideration was given to official salaries at the Federal Reserve Bank of Boston, Mr. Leonard called Mr. Creighton, Chairman of the Boston Bank, on the telephone and advised him of the action taken by the Board and that Mr. Creighton urged that the action with respect to the salary for Mr. Latham, Assistant Vice President, be reconsidered. The reason for Mr. Creighton's request was that Mr. Latham was one of the most promising officers in the Bank, that the salary proposed for him at the rate of \$8,000 per annum was entirely justified by the work that he was doing, that he had an offer of a position with one of the Boston banks at a salary of \$15,000 per annum, and that it was hoped that inasmuch as he was interested in the System as a career he would be willing to stay with the Reserve Bank if the increase were granted.

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Following a discussion of the question whether the Board or a Federal Reserve Bank would be justified in trying to retain a Federal Reserve Bank officer when he was offered a position on the outside at a salary considerably higher than the Federal Reserve Bank should pay, the members of the Board concurred in the opinion that in view of Mr. Creighton's comments the Board would be justified in relying on his judgment and in approving the salaries fixed by the directors for Mr. Latham and Assistant Cashier Gilbody.

Upon motion by Mr. Evans and by unanimous vote, the Secretary was requested to advise Mr. Creighton that the Board approved salaries at the rates of \$8,000 and \$7,250 per annum for Messrs. Latham and Gilbody, respectively, for the period from May 1, 1946, to April 30, 1947.

Before this meeting each member of the Board had been furnished a copy of a telegram dated May 7, 1946, from Mr. Clerk in which it was stated that the Federal Reserve Bank of San Francisco had received a letter dated April 30, 1946, from the Comptroller of the Currency asking for a recommendation on the approval or disapproval of the establishment of a new national bank at Alhambra, California, to be known as the Valley National Bank of Alhambra. The telegram referred to the actions previously taken by the Board with respect to the application of the First Trust and Savings Bank of Pasadena for permission to establish a branch at Alhambra and to the action of the Comptroller of the Currency in authorizing the establishment by the Bank of America National Trust and Savings Association

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of de novo branches at Sherman Oaks, California, San Gabriel, California, and Lower Uba, California, and suggested that, if the policy stated by the Board in its letter of February 14, 1942, to Transamerica Corporation with respect to acquisitions by Transamerica interests of additional banking offices had been abandoned or modified as would seem to be indicated by the approval of the three de novo branches referred to above, the Board might desire to reconsider the application still pending of the First Trust and Savings Bank of Pasadena to establish an Alhambra branch since the granting of the charter to the new national bank would result in the establishment of a new bank in Alhambra in the immediate proximity of the branch sought by the First Trust and Savings Bank of Pasadena.

Mr. Cagle outlined the information available in the office of the Comptroller of the Currency with respect to the sponsors of the new national bank and there was a discussion of the reply to be made to Mr. Clerk's wire.

Chairman Eccles reviewed the special circumstances surrounding the action of the Comptroller of the Currency in authorizing the three de novo branches mentioned in Mr. Clerk's wire and stated that that action was not intended to change or to constitute abandonment of the agreement of the three Federal bank supervisory agencies relating to further acquisition of banking offices by Transamerica interests.

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At the conclusion of the discussion, it was agreed unanimously that the staff should prepare, for consideration by the Board, a draft of reply to Mr. Clerk's wire along the lines suggested during the meeting.

At this point Messrs. Hammond, Paulger, Vest, Cagle and Townsend withdrew from the meeting and the action stated with respect to each of the matters hereinafter set forth was then taken by the Board:

Memorandum dated May 7, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mrs. Mary Jane Roberts, an Economist in that Division, be granted leave without pay for such time as may be necessary within the period May 5 through June 1, 1946, owing to illness. The memorandum also stated that Mrs. Roberts is a member of the Board retirement plan with death benefits and recommended that the Board authorize continuation of her death benefits for the period of leave of absence without pay, with the understanding that she would make appropriate contributions therefor.

Approved unanimously.

Memorandum dated March 12, 1946, from Mr. Carpenter, submitting a draft of entries for the policy record covering actions taken by the Board during the year 1945. The

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draft of record had been circulated among the members of the Board and in a memorandum dated April 4, 1946, Mr. Ransom suggested a change in the draft of entry relating to the action taken at the meeting of the Board on February 2, 1945, with respect to the amendment of Regulations T and U. Mr. Carpenter's memorandum recommended that, for the reasons stated, the heads of all divisions of the Board's staff be advised that hereafter, whenever an important matter of policy was submitted to the Board for action it was to be accompanied by a memorandum from the Division submitting the matter in which would be set forth the important questions involved and the reasons which the Board might give for taking the action as well as the reasons which might be advanced for not taking it. If the proposed action were then taken by the Board the reasons would form the basis of the policy record which would be prepared by the Secretary's office promptly following the action.

The draft of the record with the change proposed by Mr. Ransom, and Mr. Carpenter's recommendation, were approved unanimously.

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Letter to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Alfred C. Neal, Director of Research, for the period May 1, 1946, through April 30, 1947, at the rate of \$8,000 per annum, which is the rate fixed by the Board of Directors as reported in your letter of May 6, 1946."

Approved unanimously.

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

"In your letter of May 2, 1946, you request the Board to approve a payment by the Federal Reserve Bank of Philadelphia to the Retirement System sufficient to reinstate the retirement rights of eight former employees who have lost such rights because of misinformation they received from the Bank.

"It is understood that the proposal has been approved by the Retirement Committee and the Executive Committee of the Retirement System and that the maximum amount involved in any one case will be approximately \$225.

"Because of the unusual circumstances, the Board approves the payment to the Retirement System under Section 9 of the Rules and Regulations as submitted."

Approved unanimously.

Letter to the Chairmen and Presidents of all of the Federal Reserve Banks, prepared in accordance with the action taken at the meeting of the Board on January 18, 1946, and reading as follows:

"In a letter dated January 16, 1945, (S-826), addressed to the Chairmen and Presidents of the Federal Reserve Banks, the Board reviewed the basic considerations involved in determining what expenditures would be regarded as sufficiently related to the conduct of the affairs of a Reserve Bank to be appropriate for the exercise of its discretion without advance approval by the Board. In the memorandum attached to that letter the Board stated that it continued to be of the belief that it could not authorize expenditures of Reserve Bank funds by way of

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"donations to further purposes, no matter how worthy, which were not directly related to the conduct of the affairs of the Banks. It was further stated that this position applied to such cases as contributions in response to appeals for national and community welfare and charitable funds.

"However, several cases involving contributions to community projects have come to the attention of the Board which have caused the Board to feel that it was desirable to attempt a further clarification of its statement of policy.

"In one instance, a Reserve Bank was solicited for a contribution toward the cost of a park in a city in which a branch of the Reserve Bank was located to be dedicated as a memorial to residents of the city who had served in the war. The contribution would be at the rate of \$40 for each employee of the branch in the military service. It was obvious, however, that the branch of the Reserve Bank would receive no peculiar benefit, although the park might be of great use and benefit to the people of the community generally. Moreover, it was observed, there might be numerous other civic projects throughout the district which might be based upon similar considerations. The Reserve Bank, upon reviewing the questions involved, came to the conclusion that it was not advisable to make the contribution and the Board of Governors concurred.

"In another case, a Reserve Bank was asked for a contribution to a fund being raised locally to finance a national contest for the best plan and design for a large memorial which had been authorized by Congress. The project would cover several blocks of a blighted area in the city and the Reserve Bank was located one block from that area. Property owners in the vicinity of the area were being asked to contribute to the fund. Banking institutions, in particular, were contributing, and the Reserve Bank, as a property owner and landlord, felt that it also should participate. The improvement of the area, it was felt, would benefit the employees and other occupants of the Reserve Bank building and the people with whom they dealt. These benefits, however, would not be different from those accruing to others in the general vicinity.

"In a third case, a request was made of a Reserve Bank for a contribution to a fund for the construction of a hospital which would serve principally the day-time employees in the business area in which the Bank was located and which would replace two other hospitals. One of the hospitals had been used by the Reserve Bank for medical services for its employees that could not readily be performed by the Bank's medical department, such as X-ray work, emergency services, and compensation

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"cases, and it was felt that the value of the hospital facilities to the Bank's employees would be greatly enhanced by the new building. Substantial contributions were being made by commercial banks in the general area served by the hospital. The proposed contribution, however, would not entitle the Bank or its employees to any special benefits or privileges different from those that would be available to any one else. It was also understood that none of the Governmental agencies in the vicinity could make, or had made, any contribution.

"The latter two cases especially presented difficult questions in view of the discretion with respect to expenditures which has been left to the Board and the Federal Reserve Banks under the terms of the Federal Reserve Act and the fact that the law places the Federal Reserve Banks in a different position from that of Governmental offices in the cities in which Federal Reserve Banks and branches are located. This difference is recognized by the provisions of the Act which make Federal Reserve Bank buildings subject to taxation and which, as stated in the Board's letter of January 16, 1945, evidence an intention on the part of Congress that there should be some room for latitude on the part of the Banks as corporations in determining what is a reasonable and proper expenditure in particular cases. The Board has also recognized the difference in approving expenditures by the Reserve Banks for hospitalization and surgical benefits for employees which are not available to employees in the field offices of the Government.

"Notwithstanding these considerations, however, the Board can not escape the conclusion that, because of the special relationship between the Federal Reserve Banks and the Government and the Government's residual interest in the assets of the Federal Reserve Banks, careful consideration must be given to what should be regarded as 'necessary expenses' under Section 7 of the Federal Reserve Act, and that in determining the policy to be followed in these matters, the limitations on local Governmental offices should be borne in mind. Contributions of the types referred to above would be primarily for purposes of local community welfare, and local offices of the Federal Government are not authorized to make such expenditures. The Board feels that contributions of this kind are not for a purpose so directly related to the conduct of the affairs of the Federal Reserve Banks as to justify their being regarded as 'necessary expenses' and accordingly that they should not be made by the Reserve Banks."



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Approved unanimously, together with the following letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis:

"You will recall that in a telephone conversation on January 18, 1946, Mr. Morrill advised you that, in view of the special circumstances which you presented, the Board would not object to a contribution which you had recommended of \$1,000 by the Federal Reserve Bank of St. Louis to the fund to finance a contest for the best design for the Jefferson Memorial project, but that the Board felt that it should send a letter to all of the Federal Reserve Banks clarifying its position with respect to contributions of this kind.

"The attached letter which states the general policy of the Board in this connection is being sent to the Presidents of all of the Federal Reserve Banks today. It is not intended, however, to affect the above-mentioned contribution by your Bank to the Memorial contest fund."

Letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of April 30, 1946, enclosing a letter dated April 29, 1946, from Messrs. Hardin, Hess, & Eder, Counsel to Pan American Trust Company, New York, New York, regarding the holding company affiliate situation as it relates to that bank. It is noted that as the result of the sale by Banco de Mexico of its holdings of stock of Pan American Trust Company pursuant to the understanding between the Board of Governors and Banco de Mexico as set forth in the Board's letter of August 22, 1945, to Banco de Mexico, a number of holding company affiliates may have been created and that Counsel to Pan American Trust Company suggest that these holding company affiliates might be eliminated at this time by means of a special election of directors.

"Your letter requests the Board for its opinion whether a special election of directors of the Trust Company at this time will constitute an election of directors within the meaning of section 2(c)(1) of the Banking Act of 1933, as amended, and be determinative of 'the number of shares voted for the election of directors of \*(the) bank at the preceding election'.

"It is not apparent from the information submitted that the directors elected at the annual stockholders' meeting on

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"January 16, 1946, are not now duly qualified to serve during the period for which they were elected. In these circumstances, it does not appear that there is any occasion for another meeting for the purpose of electing directors and the effect of any such election would seem to be open to question. Moreover, on the basis of your letter of April 30, 1946, and its enclosure, and the letter addressed to the Board by Banco de Mexico, S. A., under the date of February 25, 1946, and its enclosure, a copy of which is attached, it does not appear that there is at this time any holding company affiliate of Pan American Trust Company existing by virtue of ownership of its shares. Whether there may be a holding company affiliate for reasons other than stock ownership, we are not in a position to indicate any viewpoint."

Approved unanimously.

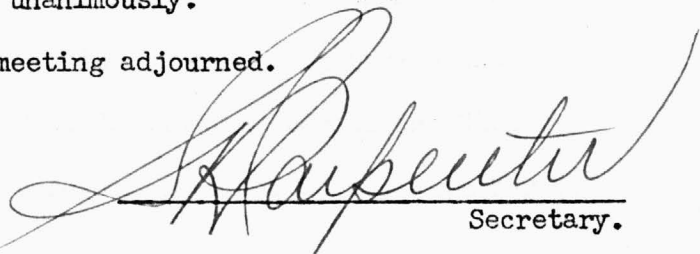
Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of May 3 in which you say that you plan to send both Mr. Roelse and Mr. Wallich to the conference of central bank representatives in Mexico City, which is the subject of our letter of April 30.

"We should have made clear in our original letter that we are anxious to limit the American representation lest there be some feeling that we are endeavoring to carry too much weight in the conference as compared to other countries. We had thought that a delegation of five, including three from the Board and one each from New York and Dallas, would be about the appropriate size. We trust that you will agree with this judgment and name either Mr. Roelse or Mr. Wallich as your representative."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.