

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 4, 1947.

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

Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Chairman

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 3, 1947, were approved unanimously.

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

"In accordance with the request contained in your letter of February 27, 1947, the Board approves the appointment of John M. Sink, Jr., as an examiner for the Federal Reserve Bank of Philadelphia. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. McConnell, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the application for membership of the Bank of Sheridan, Sheridan, Montana, approved by the Board of Governors December 6, 1946, and the Board's letter transmitting the letter of approval to the Reserve Bank.

"The matter has been discussed with the officers of the Reserve Bank by telephone from time to time and with President Peyton during his visit to the Board's offices in connection with the Conference of Presidents, as suggested in the Board's letter of February 20 replying to your letter of January 22, 1947. As you have been advised, the

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"matter had also been discussed with the Washington office of the F.D.I.C. and Mr. Sailor, Chief of the Corporation's Division of Examination, has advised the Board's staff that the Corporation has no objection to the admission of the bank to membership with the present management.

"In view of the discussion and in all the circumstances, the Board now authorizes the release and transmittal of its letter of approval to the applicant, unless the Reserve Bank has reason to object to such action.

"The time within which the Bank of Sheridan may accomplish membership is extended to April 7, 1947."

Approved unanimously.

Letter to Mr. Fulton, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of February 20, 1947, submitting for the consideration of the Board of Governors the proposal of The Colonial Trust Company, Pittsburgh, Pennsylvania, to purchase assets and assume the deposit liabilities of The Carrick Bank, Pittsburgh, Pennsylvania.

"It is understood that The Colonial Trust Company will purchase only such assets as a State member bank may legally acquire and that counsel for the Reserve Bank will review, and satisfy himself as to the legality of, all steps taken to complete the transaction as proposed.

"In view of the information submitted, the Board of Governors concurs in your opinion that the proposed transaction will not result in a change in the general character of assets of The Colonial Trust Company or broadening in the functions now exercised by it within the meaning of condition of membership numbered 3 to which it is subject."

Approved unanimously.

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

"I have read the draft letter to the National Bank of Nicaragua appended to your letter of January 30 addressed to Secretary Snyder, and I understand that you have heard from him that the Treasury has no objection to its being sent. I likewise have no objection but would like to offer two comments on the letter for your consideration.

"The first is that while we have no special sources of information concerning the motives which have induced the Nicaraguans to apply for this loan, the evidence strongly suggests to us that the main reason is simply their desire to show an illusory increase in their external reserves at a time when they are expanding their internal currency and credit. If this is so, i.e. if the Nicaraguans plan to carry the borrowed dollars along with the pledged gold as a reserve in the National Bank, your draft letter appears to miss the main point. The alternative form of external financing which you suggest—sale and subsequent repurchase of their gold—would not produce this sham increase in external reserves. Perhaps speculation on a rise in the dollar price of gold is not so prominent a motivation in this case as some of the comments from our Embassy have indicated—if it were, why do the Nicaraguans apparently plan to continue holding a substantial part of their external reserves in dollars rather than gold?

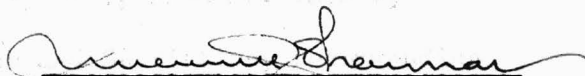
"I realize, however, that you would find it difficult to write a letter rebuking them for using misleading bookkeeping methods in presenting their reserve accounts, and perhaps your letter as drafted will serve at least to smoke them out a little as to the nature of the transaction.

"My second comment on the letter is that you might add a passage suggesting that, even if the Nicaraguans feel that they are committed to go through with the loan contract at the present time, they might consider the views expressed in your letter in the light of their right to prepay the loan at any time.

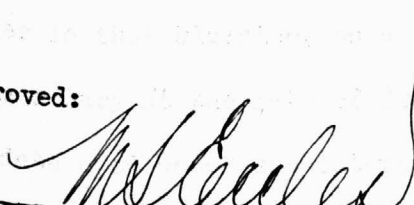
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"I understand that the Treasury has declined to accept your suggestion that they approach the Bank of America on this matter through the Comptroller of the Currency and that you now plan to send that bank (through the Federal Reserve Bank of San Francisco) a copy of your letter to the National Bank of Nicaragua. I agree that you can hardly do less, although in view of the terms and general background of this transaction, I would not be inclined to waste much sympathy on the Bank of America if the deal fell through."

Approved unanimously.


Assistant Secretary.

Approved:


Chairman.