

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 23, 1947. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Parry, Director of the Division of Security Loans  
Mr. Vest, General Counsel  
Mr. Leonard, Director of the Division of Examinations  
Mr. Nelson, Director of the Division of Personnel Administration  
Mr. Townsend, Assistant General Counsel

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of Dallas and San Francisco on May 21, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Kansas City on May 22, 1947, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman Eccles stated that support of bank holding company legislation in the general form of the bill prepared by the Board

5/23/47

-2-

and introduced in Congress (S. 829 and H. R. 3351) had been indicated by the independent bankers' associations, most of the bank holding company groups, the Association of Reserve City Bankers, and the Federal Advisory Council; that certain amendments had been suggested by these groups, that after thorough consideration he had concluded that several changes should be made in the bill which would include some of those suggested by the groups as well as others originating in the Board's offices, and that adoption of these amendments would leave the bill in a more acceptable form. He added, in response to a question from Mr. Szymczak, that so far as he knew none of the groups mentioned would oppose any of the suggested amendments and that the bill with the amendments would have their support.

In response to Chairman Eccles' request that he explain the suggested amendments, Mr. Townsend made substantially the following statement:

Three changes would be made in the definition of a bank holding company contained in section 3 of the bill. The first would make the definition apply to any company which directly or indirectly owned or controlled 15 (instead of 10) per cent or more of the voting shares of each of two or more banks. An increase in the percentage was proposed by the Federal Advisory Council and discussed at the meeting of the Council and the Board on May 20, 1947. The Association of Reserve City Bankers wanted to raise the percentage to 25 per cent and, while it would be better if it could be kept at 10 per cent, it is necessary to raise it in order to obtain the support of the bill by the Association and the Federal Advisory Council. The second change would

5/23/47

-3-

include in the definition any bank which directly or indirectly owned or controlled 15 per cent or more of the voting shares of one or more banks. The reason for this change was that such a relationship would involve two banks and constitute the nucleus for a bank holding company system. The third change would add to the section a new paragraph which would make it clear that it was not the intention of the bill to reach banks which happened to hold in their trust departments 15 per cent or more of the stock of two or more banks. It was agreed in the discussion with the bankers that the bill was not intended to cover situations of this kind and that it would be recommended to the Board that the additional paragraph be added to make the act apply in such cases only when the Board found that the stock was being held in a fiduciary capacity as a means of evading the provisions of the act.

Section 5 of the bill which prohibits, with certain exceptions, the ownership by bank holding companies of the stock of a company other than a bank, would be amended in two important respects. There would be an addition to paragraph (b) which would add to the list of companies mentioned in that paragraph which could be owned by a bank holding company, concerns engaged in furnishing managerial, auditing, supervisory, purchasing and other similar services to the bank holding company and its subsidiaries or procuring and servicing for the bank holding company and its subsidiaries investments and paper eligible for bank investments, or liquidating assets acquired from the bank holding company and its subsidiaries. The second change in the section would exempt from the prohibitions of the section (1) voting shares or other securities or obligations which were lawfully owned by a bank on the effective date of the act, and (2) investment securities of the kinds and amounts made eligible for investment by national banks under the provisions of section 5136 of the revised statutes. The purpose of this amendment was to permit banks which were bank holding companies under the act to continue to hold shares in nonbank companies which they lawfully owned on the date the act was approved and to permit bank holding companies to acquire investment securities of the kinds and amounts eligible for investment by national banks.

5/23/47

-4-

Proper language would be included to prevent use of the exemption granted by this amendment as a device for evading the provisions of the act.

Section 6 would be changed to provide that, whenever a bank holding company already owned a majority of the voting stock of a bank, prior approval of the acquisition of additional shares would not be required. A second amendment to this section would add a proviso to paragraph 6(d) to meet the objection raised by the Reserve City Bankers Association and the Federal Advisory Council as discussed at the meeting of the Board and the Council on May 20. The proviso would (1) exclude from the authority to approve acquisitions covered by the section any case, where, regardless of competitive or other aspects, the effect of the acquisition might be to expand the size and extent of a bank holding company system beyond limits consistent with adequate and sound banking, and (2) require that the factors stated in the paragraph be considered by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation in determining whether to approve an application of any bank, which was part of a bank holding company system, to establish a branch or branches of such bank. The latter requirement was for the purpose of requiring consideration of the same factors in all acquisitions by bank holding companies whether in the form of acquisition of stock or assets of banks or the establishment of a branch of a bank already controlled.

Section 7 of the bill, which relates to borrowing by bank holding companies or its subsidiaries, would be changed to permit banks which were members of a bank holding company group, with the prior approval of the Board, to acquire the capital stock of a bank holding company or any of its subsidiaries as additional security for debts previously contracted. Another change in the section would be to increase, from 10 to 20 per cent of a subsidiary bank's capital stock and surplus, the limit on the aggregate amount of credit extended to the bank holding company or its subsidiaries and obligations of the bank holding company and its subsidiaries which may be acquired by the subsidiary bank. This change was made to bring the provisions of the

5/23/47

-5-

section into harmony with the provisions of section 23A of the Federal Reserve Act. A third change in the section would add a provision to the effect that non-interest-bearing deposits made by a subsidiary bank, or credit given by it to another bank for uncollected items received in the ordinary course of business, would not be regarded as a loan or advance by the subsidiary bank for the purposes of the section.

Under section 9 as now written the reserve funds required to be accumulated by a bank holding company can be used only to replace capital of its subsidiary banks and to eliminate losses and depreciation from the assets of such banks. The bank holding company groups feel that they should be permitted also to use such funds to increase the capital of subsidiary banks and, while it is felt that blanket authority for such increase should not be given because it might be used as a device for expansion of the bank holding company group, the bill should be changed to permit the use of reserve funds, with the approval of the Board of Governors, for increases in capital of subsidiary banks.

A proposed amendment to section 13 of the bill would continue certain limitations contained in present law with respect to the activities of affiliates of bank holding companies.

The remaining amendments are of a technical nature and need not be discussed at this time.

After a brief discussion of the proposed amendments as outlined by Mr. Townsend, upon motion by Mr. Szymczak, the amendments were approved unanimously as follows, with the understanding that when Chairman Eccles appeared before the Senate Banking and Currency Committee next week he would say that it was the recommendation of the Board that the amendments be written into the bill:

"AMENDMENTS TO S. 829 WHICH ARE RECOMMENDED BY  
THE BOARD

(Page and line numbers refer to print of bill as introduced in the Senate on March 10, 1947)

5/23/47

-6-

"Amend Section 3 as follows:

Change the figure '10' appearing on page 2, line 20, to the figure '15'.

Insert the following after the comma on page 2, line 21:

'or any company which is a bank and which directly or indirectly owns, controls, or holds with power to vote 15 per centum or more of the voting shares of one or more other banks,'

Change the figure '10' appearing on page 4, line 8, to the figure '15'.

Add new subsection (f) as follows:

'(f) For the purposes of this section there shall be excluded from consideration all voting shares of banks or other companies acquired or held by a bank in a fiduciary capacity, except where such voting shares are acquired or held for the benefit of all or a majority of the persons beneficially interested in such bank or except where the Board, after notice and opportunity for hearing, finds that such acquisition or holding is being employed as a device for avoiding the provisions of this Act.'

"Amend Section 5 as follows:

Add the words 'banking or' on page 7, at the end of line 4.

Add the following after the comma on page 7, line 14:

'or engaged in the business of furnishing managerial, auditing, supervisory, purchasing and other similar services solely to such bank holding company and its subsidiaries, or in the business of procuring and servicing solely for such bank holding company and its subsidiaries investments and paper eligible for bank investment, or in the business of liquidating assets acquired from such bank holding company and its subsidiaries,'

After the word 'subsidiaries' and before the semicolon on page 7, line 22, add the following: 'or with the prior approval of the Board'.

5/23/47

-7-

"Add new subsection (d) as follows:

'(d) Nor shall the prohibitions of this section apply to voting shares or other securities or obligations which are held or acquired by a bank in a fiduciary capacity or which are otherwise lawfully owned by such bank on the effective date of this Act; nor shall the prohibitions in this section apply to investment securities of the kinds and amounts eligible for investment by national banks under the provisions of Section 5136 of the Revised Statutes. If, while such bank or bank holding company owns or controls such shares, securities or other obligations, the Board, after notice and opportunity for hearing, determines that the ownership or control of such shares, securities or obligations is being employed as a device for avoiding the provisions of this Act, it may by order require such bank or bank holding company to dispose of all or any part thereof forthwith.'

"Amend Section 6 as follows:

Change the figure '10' on page 8, line 10, to the figure '15'.

Insert the following after the period on page 8, line 15:

'Provided, however, that nothing herein contained shall be construed to apply to the acquisition by a bank holding company of any additional voting shares of a bank in any case where such bank holding company, prior to such acquisition, owned a majority of the voting shares thereof.'

Add the following to subsection (d) on page 9:

'Provided, however, that nothing herein contained shall be construed to authorize the approval of any acquisition subject to paragraphs (a), (b), or (c) of this section where, regardless of its competitive or other aspects, the effect of such acquisition may be to expand the size and extent of a bank holding company system beyond limits consistent with adequate and sound banking. The factors stated in this section shall likewise be considered by the Board, the

5/23/47

-8-

'Comptroller of the Currency or the Federal Deposit Insurance Corporation in determining whether to approve an application of any bank, which is a part of a bank holding company system, to establish a branch or branches of such bank.'

"Amend Section 7 as follows:

Add the following after the period on page 9, line 23:

'Provided, however, that any bank may, with the prior approval of the Board, accept such capital stock as a security for debts previously contracted.'

Change the figure '10' to the figure '20' on page 10, line 12.

Add the following sentence after the period on page 10, line 13:

'Noninterest-bearing deposits to the credit of a bank shall not be deemed to be a loan or advance to the bank of deposit, nor shall the giving of immediate credit to a bank upon uncollected items received in the ordinary course of business be deemed to be a loan or advance to the depositing bank.'

"Amend Section 9 as follows:

Substitute the word 'book' for the word 'par' appearing on page 12, line 8.

Strike the words 'and to eliminate losses and depreciation from the assets of such banks,' appearing on page 12, lines 17 and 18, and substitute the following:

'and, with the permission of the Board, to increase the capital or surplus of its subsidiary banks and to eliminate losses and depreciation and to remove undesirable assets from the assets of such banks,'

"Amend Section 13 as follows:

Change the figure '10' appearing on page 21, line 20, to the figure '9'.

Amend paragraph (g) by adding before the quotation marks appearing on page 22, line 19, the following: ', or any subsidiary thereof as defined in said Act.'

5/23/47

-9-

"Add new paragraph at the end of line 19 on page 22 as follows:

'(h) Subsection (b) of Section 2 of the Banking Act of 1933, as amended, is amended by adding the following paragraphs:

"(4) which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

"(5) for the benefit of whose shareholders or members all or substantially all of the capital stock of a member bank is held by trustees."'"

Mr. Thomas entered the meeting during the discussion of the holding company legislation.

In connection with the discussion of the salary classification plans being prepared by the Federal Reserve Banks, Chairman Eccles stated that this subject was one of the matters assigned to Mr. Vardaman for primary consideration, but that, in view of his illness, it was suggested that the subject be assigned to the Personnel Committee until such time as the personnel classification plans of the Banks had been approved by the Board and put into effect, after which the assignment would revert to Mr. Vardaman.

Chairman Eccles' suggestion was approved unanimously.

5/23/47

-10-

Mr. Evans stated that eight of the Federal Reserve Banks had submitted to the Presidents' Conference committee working on the salary classification plans, tentative salary scales based largely on the salaries being paid in their respective areas and that there was a variation of as much as 40 per cent between the highest and the lowest scales submitted. He also said that it was felt that this variation was too large and would have to be reduced and that the matter should be considered by the Board before the forthcoming meeting of the Presidents' Conference so that it would be in a position to advise the Presidents what the Board's policy would be.

Chairman Eccles expressed the opinion that for reasons previously discussed there should be uniformity of the salary scales in effect at the various Federal Reserve Banks, that a range of 40 per cent was entirely too large, that there should be no more than a 20 per cent variation in the salary scales, and that, as stated at the meeting of the Presidents and the Board in February, there should not be more than three or four different salary scales for all of the Federal Reserve Banks and branches.

After discussion, upon motion by Mr. Szymczak, the matter was referred to the Personnel Committee with the understanding that it would study the matter and submit a recommendation to the Board.

5/23/47

-11-

Chairman Eccles stated that last week he received a telephone call from the office of Chairman Wolcott of the House Banking and Currency Committee asking him to testify at hearings on the bill to extend the Reconstruction Finance Corporation and on the general credit situation. He stated that he responded that he had nothing to say with respect to the bill relating to the Reconstruction Finance Corporation or on the general credit situation, but that he would like to testify on the industrial loan bill (S. 408 and H.R. 3268) and on the question of consumer credit legislation. Chairman Eccles did not know whether he would be invited to appear before the Committee on these two matters, but in order that he might be prepared to discuss the regulation of consumer credit he had asked that there be prepared (1) a statement in the form of a letter to the Chairmen of the Banking and Currency Committees transmitting the bill proposed by the Board, and (2) a letter for the signature of the President referring to the advice of the Council of Economic Advisers and expressing the opinion that the enactment of legislation to make permanent the regulation of consumer credit was in the public interest. Chairman Eccles added that these letters would be submitted to the Board shortly, and that he was reporting on the matter at this time so that if the Board wished to give the matter any other direction

5/23/47

-12-

that could be done. All of the members present indicated agreement with the procedure proposed by the Chairman.

Upon motion by Mr. Evans, the following letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, was approved unanimously:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Kansas City and its Branches for the period June 1, 1947, through May 31, 1948, at the rates indicated, if fixed by the Board of Directors at such rates, which are the rates proposed by the Board of Directors as reported in your letter of May 14, 1947:

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
H. G. Leedy	President	\$25,000
Henry O. Koppang	First Vice President	18,000
D. W. Woolley	Vice President and Cashier	13,000
Delos C. Johns	Vice President, General Counsel and Secretary	12,500
John Phillips, Jr.	Vice President	10,000
G. A. Gregory	Assistant Vice President	8,600
E. P. Tyner	Assistant Cashier	8,600*
M. W. E. Park	Assistant Cashier	8,400
E. U. Sherman	Assistant Cashier	6,600
F. W. Alexander	Assistant Cashier	6,200
C. E. Sandy	Auditor	8,600
<u>Denver Branch</u>		
G. H. Pipkin	Vice President	12,000
F. H. Larson	Cashier	6,800
H. L. Stempel	Assistant Cashier	5,800
Hubert G. Duck	Assistant Cashier	5,700
<u>Oklahoma City Branch</u>		
O. P. Cordill	Vice President	11,000
R. L. Mathes	Cashier	7,300
F. R. Fritz	Assistant Cashier	5,800
Fred C. Schmock	Assistant Cashier	4,500

\* It is understood that Mr. Tyner, who reaches the age of 65 on May 30, 1947, will be retired under the normal procedure.

5/23/47

-13-

<u>"Name</u>	<u>Title</u> <u>Omaha Branch</u>	<u>Annual Salary</u>
L. H. Earhart	Vice President	\$12,000
J. K. Friedebach	Cashier	6,800
U. S. Berry	Assistant Cashier	6,100
William P. Doran	Assistant Cashier	5,300

"The Board of Governors also approves the designation of Mr. T. Bruce Robb as the officer in charge of the Research Department, with the title of Director of Research, and the payment of salary to him at the rate of \$8,600 per annum for the period June 1, 1947, through May 31, 1948."

Mr. Evans stated that the National Conference of Business Paper Editors would meet in Washington on June 27, that the number in attendance would be about the same as at the recent meeting of the Agricultural Editors Association, that the meeting and luncheon with the Agricultural Editors Association had been very successful, and that he recommended that the Board extend an invitation to the National Conference of Business Paper Editors to lunch and a program of discussion.

Mr. Evans' suggestion was approved unanimously.

Chairman Eccles then referred to the letter written to the Chairman of the Presidents' Conference under date of May 16, 1947, asking that there be placed upon the agenda for the forthcoming Presidents' Conference a discussion of the Board's authorization as to the proportion of expense of operating a cafeteria which may be absorbed by a Federal Reserve Bank. He stated that this

5/23/47

-14-

letter, which said that no change was being made at this time in the authorization permitting absorption of up to 50% of the cost of operating a cafeteria, was not in accord with his view that the amount of expense absorbed by the Federal Reserve Banks should not exceed 25%, particularly since general overhead charges such as space and some equipment charges are not included in cafeteria expense.

There was a general discussion of this matter, and upon motion by Mr. Draper, it was agreed that at the forthcoming Presidents' Conference the Board would state the view that absorption of as much as 50% of cafeteria costs was excessive, that in view of increases in salaries at Federal Reserve Banks and prospective declines in food costs the Banks should adjust their operations by the end of the year to absorb not more than 25% of the cafeteria expense, and that the Board contemplated action to reduce the outstanding authority to 25% beginning January 1, 1948.

At this point Messrs. Parry, Vest, Leonard, Nelson, Townsend, and Thomas withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 22, 1947, were approved unanimously.

Memorandum dated May 19, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment

5/23/47

-15-

of Otto G. Kiehn, Jr., as a research assistant in that Division on a temporary indefinite basis with basic salary at the rate of \$2,644.80 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that Mr. Kiehn was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Memorandum dated May 19, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending the appointment of Mrs. Anna Mae Cowger as a stenographer in that Division with basic salary at the rate of \$2,394 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 that Mrs. Cowger was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Memorandum dated May 19, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending that the appointments of Miss Ruth E. Morris and Miss Margaret E. Jenkins, stenographers in that Division, be changed from temporary indefinite to permanent, effective today.

Approved unanimously.

5/23/47

-16-

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

"The Board of Governors approves the payment of salary to Mr. Clyde Harrell as Assistant Cashier, Cincinnati Branch, for the period from August 1, 1947, through April 30, 1948, 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 20, 1947."

Approved unanimously.

Letter to the board of directors of the "Bronxville Trust Company", Bronxville, New York, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York.

"7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$2,000, as shown in the report of examination of such bank as of March 22, 1947, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, together with a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the Bronxville Trust Company, Bronxville, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors

5/23/47

-17-

"of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York, for his information.

"Since it is understood that in the State of New York trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice."

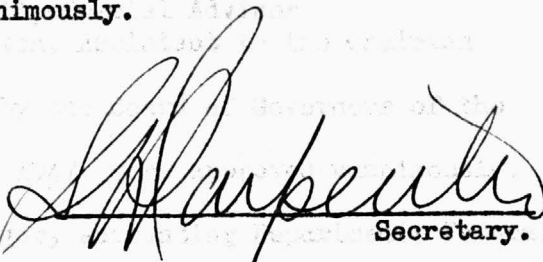
Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of the "Hereford State Bank", Hereford, Texas, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas, effective if and when the bank is duly authorized to commence business by the appropriate State authorities. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram contained the following additional statement:

5/23/47

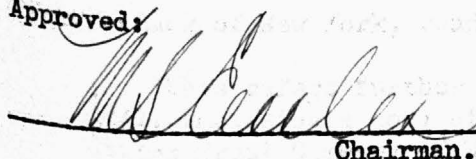
-18-

"It appears that the bank possesses the power to issue and sell investment certificates, which power is not necessarily required in the conduct of a banking business. Attention is called to the fact that if the bank should desire to exercise such power, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before doing so."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.