

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 20, 1947. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Young, Assistant Director of the Division of Research and Statistics

Mr. Clayton referred to an application for membership by the newly organized "Union State Bank", Carrizo Springs, Texas, stating that the bank's application for membership, which was discussed in a memorandum prepared by the Division of Examinations under date of August 12, 1947, had been accompanied by a recommendation of the Federal Reserve Bank of Dallas that it be disapproved, and that the Board's Division of Examinations recommended that the application be not approved on the basis of the information submitted.

The recommendations against admission to membership resulted, Mr. Clayton said, from the fact that there was already one insured nonmember bank operating in Carrizo Springs, a town of about 3,500 population in an agricultural section with a

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trading area population of about 10,000, that there was not evidence that an additional bank should be established for the purpose of serving the convenience and needs of the community, and that there was doubt as to the future earning ability of the applicant bank. He added that the new bank was well sponsored by persons of high integrity and financial responsibility, that the bank's capital structure was entirely adequate, that the management was acceptable, and that the corporate powers appeared to be consistent with the purposes of the Federal Reserve Act. Mr. Clayton also said that the withholding of membership would not be a means of preventing the establishment of a second bank in the community since the bank had indicated that, if this application were not granted, it expected to open for business on a noninsured basis, and that the question appeared to be whether to continue the Board's general policy of withholding membership where there was substantial doubt as to the need for establishment of an additional bank and where the Reserve Bank serving the district failed to recommend admission.

Mr. Morrill recalled that some banks had been admitted to membership in situations where there was uncertainty as to future earnings prospects, and there was a discussion of instances in which membership had been granted without the favorable recommendation of the Reserve Bank serving the district.

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Mr. Leonard stated that the banks so admitted were either existing insured banks or were new banks being established in communities which did not then have banks, whereas in this case there was now an insured bank operating in the same community and giving at least part of the banking service that might be required.

With respect to the applicant bank, Mr. Leonard stated that it had been organized by local businessmen who felt that the present bank, the Citizens State Bank, was not adequately serving the needs of the community in that loans were made to a limited group without adequate consideration to applications of other deserving persons, that exorbitant exchange and service charges were being assessed, and that the present bank was failing generally to render a broad, enlightened, and courteous service to the public. This group expected, Mr. Leonard added, that a considerable amount of deposits of local business firms now carried elsewhere would be brought back to Carrizo Springs and placed in the new bank, but specific information to support this expectation had not been furnished.

Mr. Leonard also said that in past years there had been two banks in Carrizo Springs and at one time three banks, that when there had been more than one, the banks had not prospered, that although there had been a growth in population since that time, the community

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remained almost entirely an agricultural section with little prospect of further substantial increases in bank deposits in the near future, and that establishment of another bank might result in an over-banked condition under which neither bank would prosper and each might be driven to competitive practices that would be disastrous to both and harmful to the public interest. Mr. Leonard then reviewed some of the steps taken by the group organizing the new bank, and made substantially the following statement:

The Reserve Bank's conclusions in this case are said to be concurred in by the District Chief National Bank Examiner, with whom the organizers of the applicant bank tentatively discussed the plan of applying for a national charter, and who discouraged them on the ground that he doubted that the need for additional facilities could be established. These views were concurred in also by the District Supervising Examiner for the Federal Deposit Insurance Corporation, who was approached recently by the applicant's representatives, and who discouraged their filing an application for deposit insurance. State authorities also believe that the bank's outlook is poor. The Bank Commissioner of Texas was reportedly not in favor of granting a charter to the

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applicant bank and voted against it as a member of the State Banking Board. Vice President DeMoss of the Reserve Bank stated that, in view of the large number of applicants clamoring for bank charters in Texas within recent months, the attitude of supervisory authorities regarding organizers of new State banks, who often have only a faint hope of successful operation, has changed considerably, and that it is believed future applications will not be finally passed upon until it has been ascertained whether the applicant can obtain deposit insurance or membership in the System.

Mr. DeMoss said that the Reserve Bank made its recommendation only after giving the matter unusually careful consideration. It was the firm opinion of the Reserve Bank's executive committee that the application should be denied. The applicant's representatives have indicated that, at a future date, if and when the bank has obtained a reasonable volume of deposits and is on a profit basis, another application for membership in the System or an application for Federal Deposit Insurance Corporation insurance would be filed.

In response to an inquiry from Mr. Vardaman, Mr. Vest said

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that the two factors which had caused the recommendation that the bank not be admitted to membership at this time - earnings prospects and the convenience and needs of the community - were among the factors the Board was required by law to consider in certifying to the Federal Deposit Insurance Corporation that a bank had become a member of the Federal Reserve System, which admission to membership automatically carried with it deposit insurance. Mr. Vest added that the factors which the Board was required by law to consider in issuing the certificate were the same as the factors which the Federal Deposit Insurance Corporation was required by law to consider in granting insurance to a nonmember bank.

Mr. Vardaman then asked whether the Board had a definite record showing that the Comptroller of the Currency had declined to grant a charter to the newly organized bank and whether, if membership in the Federal Reserve System were denied, the Federal Deposit Insurance Corporation had indicated what its position would be as to granting deposit insurance to the bank in question, and Mr. Clayton stated that no formal application for a national charter had been filed, that the Federal Deposit Insurance Corporation had taken the position that it would not give an opinion on whether deposit insurance would be granted until after an application had been submitted, and that such an application would not be filed

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until the application for Federal Reserve membership had been acted upon since, if membership were granted, it automatically made deposit insurance available to the bank.

There was a further discussion of the action that should be taken in connection with the application for membership and of the procedure that should be followed in notifying the applicant of the decision of the Board in the event membership was not granted.

Upon motion by Mr. Clayton, it was agreed unanimously to inform the "Union State Bank" that, on the basis of the information submitted, it would not appear that the Board would be justified in approving its application for membership at the present time. In taking this action it was understood that the action would be transmitted to the Federal Reserve Bank of Dallas by telephone with the suggestion that that Bank notify the applicant that under the circumstances it might wish to withdraw the application.

At this point Messrs. Knapp, Morse, Exter, Grove, Garfield, Gerschenkron, Holthausen, Koch, Musgrave, and Youngdahl, of the Division of Research and Statistics, entered the meeting.

Mr. Exter was called upon by Mr. Szymczak to present a report of his work as a member of the joint American-Philippine Financial Commission during the period from January to June of 1947. Mr. Exter's remarks are summarized in a memorandum dated September 2, 1947.

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During Mr. Exter's report Mr. Szymczak was called from the meeting. At the close of the report Mr. Vardaman left to keep an appointment.

Following Mr. Exter's report Mr. Grove made a statement with respect to his work during May and June 1947 as a consultant to the Government of Ecuador in connection with a revision of the banking laws of that country. A memorandum prepared by Mr. Grove under date of August 21, 1947 contains the substance of his remarks.

At this point Messrs. Vest, Leonard, Nelson, Young, Knapp, Morse, Exter, Grove, Garfield, Gerschenkron, Holthausen, Koch, Musgrave, and Youngdahl 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 August 19, 1947, were approved unanimously.

Memorandum dated August 18, 1947, from Mr. Young, Assistant Director of the Division of Research and Statistics, recommending that the resignation of Mrs. Mary Gwyn Curtis, a library assistant in that Division, be accepted to be effective, in accordance with her request, at the close of business August 22, 1947.

Approved unanimously.

Memorandum dated August 15, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Ethelyn M. Palmer as a stenographer in that Division with basic salary at the rate of \$2,168.28 per annum, ef-

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fective 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 it was contemplated that Mrs. Palmer would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated August 11, 1947, from the Division of Personnel Administration recommending, for the reasons stated in the memorandum, that the following resolution be adopted by the Board:

"WHEREAS, under the Board of Governors Plan of the Retirement System of the Federal Reserve Banks it is provided that upon discontinuance, other than by death or retirement, of employment with the Board of any participant in the Board of Governors Plan, regardless of the length of his service, there shall be paid to him, upon his written application and in lieu of any other benefit, a lump sum equal to the full amount of his contributions, together with one-half of the interest accumulated thereon, and

"WHEREAS, Public Law No. 263, 80th Congress approved July 30, 1947, provides, in effect that an employee of the Government who is a member of the Civil Service Retirement System upon separation from employment subject to the Civil Service Retirement System with less than ten years of creditable service may withdraw his contributions with interest computed at 4 per cent per annum compounded on December 31 of each year, and

"WHEREAS, it is provided in the Board of Governors Plan that a participant therein is entitled to receive the benefits from the Retirement System of the Federal Reserve Banks equivalent to those to which he would be entitled under the provisions of the Civil Service Retirement Act (as now existing or hereafter amended) if he were in the classified Civil Service of the United States; except as otherwise provided by the terms of the Board of Governors Plan or by section 10 of the


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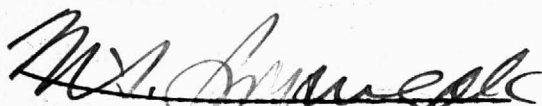
"Rules and Regulations of the Retirement System of the Federal Reserve Banks; now, therefore be it

"RESOLVED, that Public Law No. 263, 80th Congress, approved July 30, 1947, shall not be construed as being applicable to participants in the Board of Governors Plan nor shall it be construed as modifying in any respect the provisions of the Board of Governors Plan, except with respect to the computation of interest payable by an employee upon reemployment with the Board covering periods of separation from service."

Approved unanimously.


Assistant Secretary.

Approved:


Chairman pro tem.