Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 19, 1947. The Board met in the Board Room at 11:05 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Smead, Director of the Division of Bank Operations
Mr. Parry, Director of the Division of Security Loans
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Millard, Assistant Director of the Division of Examinations
Mr. Myrick, Assistant Director of the Division of Bank Operations
Mr. Solomon, Assistant Counsel

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 16, 1947, by the Federal Reserve Banks of Atlanta and St. Louis on December 17, 1947, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago, and Kansas City on December 18, 1947, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Pursuant to the action at the meeting on December 17, there had been prepared a Standard for Classification of Reserve Cities, reading as follows:

"For a considerable period of time, the Board of Governors of the Federal Reserve System has been considering the adoption of a standard or basis for the classification of central reserve and reserve cities in order to enable it properly to discharge its responsibilities under the provision of the Federal Reserve Act which empowers the Board to add to or reclassify such cities or to terminate their designation as such.

"For many years prior to the enactment of the Federal Reserve Act in 1913, national banks had been permitted by law to carry a part of their reserves with other national banks in cities known as central reserve or reserve cities, and accordingly national banks in such cities were required to maintain higher reserves against their deposits. The Federal Reserve Act, following the National Bank Act in this respect, provided for differentials in the reserve requirements of member banks of the Federal Reserve System according to their location in central reserve cities, reserve cities, or elsewhere. Central reserve and reserve cities existing in 1913 were continued as such by the Federal Reserve Act, but the Board of Governors was given authority to make changes in the designations of such cities. From time to time since the enactment of the Federal Reserve Act, the Board has designated cities as reserve cities and terminated the reserve city status of other cities. Such determinations by the Board have been made on the basis of the facts of particular cases without the consistent application of any uniform guiding principle; and consequently certain anomalous and illogical situations have developed in the classifications of reserve cities. The Board, therefore, concluded that the existing classifications are unsatisfactory and that there is a need for the establishment of a logical, fair and appropriate basis for the designation and termination of reserve cities.

"On October 24, 1947, the Board, acting in accordance with Section 4 of the Administrative Procedure Act and Section 2 of the Rules of Procedure of the Board of Governors of the Federal Reserve System, published in the Federal Register notice of a proposed action with respect to the classification of cities as reserve and central reserve cities and the termination of the designation of certain cities as reserve cities. This notice stated that interested persons might submit to the Board written data, views, and arguments with respect to the proposal, and accordingly a number of banks submitted letters expressing their views and comments. In addition, representatives of banks in a number of the cities whose status would be affected by the proposal appeared before the Board and made an oral presentation of their views.

"After due and careful consideration of all relevant matter thus presented to the Board with respect to the proposal, the Board has concluded that a logical, fair, and appropriate standard for determining the designation and termination of reserve cities is one that is determined by the ratio of interbank demand deposits held by member banks in each city to the aggregate amount of interbank demand deposits held by all member banks of the Federal Reserve System, or by such a ratio considered in connection with the ratio of interbank demand deposits held by member banks in each city to the aggregate amount of all demand deposits held by the member banks in such city; and that such standard for the designation and termination of reserve cities should be reapplied at three-year intervals.

"In opposition to the discontinuance of certain cities as reserve cities under the Board's proposal it was contended by the representatives of member banks in such cities that such discontinuance would adversely affect the business of banks in those cities, would detract from their prestige, would not take into account their geographical situation, or would deprive them of certain advantages with respect to deposits under applicable State law. The Board feels that such objections, while they may be important to the banks involved, are not to be regarded as controlling factors in determining whether cities should be classed as reserve cities in view of the purpose of such classifications. However, the Board recognizes the fact that certain cities now classified as reserve cities have held this status for many years, in some instances since before the enactment of the Federal Reserve Act, and, since the continuance of such cities as reserve cities would mean "that member banks therein must carry higher reserves than would be required of them if such cities were discontinued as reserve cities in accordance with the standard indicated above, the Board is willing that such cities be continued as reserve cities if all the member banks in such cities request that this be done.

"In accordance with the conclusions reached above and pursuant to authority conferred upon it by section 11 (e) of the Federal Reserve Act and other provisions of that Act, the Board hereby adopts the rule set forth below, to become effective March 1, 1948:

"CLASSIFICATION OF CENTRAL RESERVE AND RESERVE CITIES.

(a) Central reserve cities. The cities of New York and Chicago are hereby classified (and continued) as central reserve cities.

(b) Reserve cities. (1) The city of Washington, D. C., and every city except New York and Chicago in which there is situated a Federal Reserve Bank or a branch of a Federal Reserve Bank are hereby classified (and continued) as reserve cities.

(2) The following are also classified as reserve cities: (A) Every city in which, on the dates of official call reports of condition in the two years ended June 30, 1947, member banks of the Federal Reserve System, exclusive of their offices in other cities, held an aggregate amount of demand deposits owing to banks equal, on the average, to one-third of one per cent or more of the aggregate amount of demand deposits owing to banks by all member banks of the Federal Reserve System; and (B) Every city in which, on the dates of official call reports of condition in the two years ended June 30, 1947, member banks of the Federal Reserve System, exclusive of their offices in other cities, held an aggregate amount of demand deposits owing to banks equal, on the average, to one-fourth of one per cent or more of the aggregate amount of demand deposits owing to banks by all member banks of the Federal Reserve System and also equal, on the average, to 33-1/3 per cent or more of the aggregate amount of all demand deposits held by the member banks in such city.

On the basis of (A) and (B) above, the following cities, in addition to the reserve cities classified as such under paragraph (1) above, are hereby classified (and continued) as reserve cities:

Columbus, Ohio; Des Moines, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; St. Paul, Minnesota; Lincoln, Nebraska;

"Tulsa, Oklahoma; Wichita, Kansas; Fort Worth, Texas; Cedar Rapids, Iowa; and Sioux City, Iowa; the following city is hereby added and is hereby classified as a reserve city: National City (National Stock Yards), Illinois; and the designation of the following cities as reserve cities is hereby terminated (unless the present classification of such cities is continued in accordance with paragraph (3) below): Toledo, Ohio; Dubuque, Iowa; Grand Rapids, Michigan; Peoria, Illinois; Kansas City, Kansas; Pueblo, Colorado; St. Joseph, Missouri; Topeka, Kansas; Galveston, Texas; Waco, Texas; Ogden, Utah; and Spokane, Washington.

(3) The Board of Governors of the Federal Reserve System, prior to March 1, 1948, will also designate (and continue) as a reserve city any city now classified as a reserve city (although not within the scope of paragraphs (1) or (2) above) if a written request for the continuance of such city as a reserve city is received by the Federal Reserve Bank of the District in which the city is located on or before February 16, 1948 from every member bank which has its head office or a branch in such city (exclusive of any member bank in an outlying district of such city permitted by the Board of Governors to maintain reduced reserves) together with a certified copy of a resolution of the board of directors of such member bank duly authorizing such request.

(4) Effective as of March 1 of each third year after March 1, 1948, the Board of Governors (a) will continue as reserve cities or designate as additional reserve cities all cities then falling within the scope of paragraph (1) above and all cities which then meet the standard prescribed in paragraph (2) above based upon official call reports of condition in the two-year period ending on June 30 of the year preceding such third year; and (b) will terminate the designation as reserve cities of all other cities, except that the Board will continue the designation as a reserve city of any city which then has the designation of a reserve city and does not then fall within the scope of paragraph (1) or of paragraph (2) based upon the new two-year period, if a request for the continuance of such designation is made by every member bank (as specified in paragraph (3) above) in such city and, together with a certified copy of a resolution of the bank's board of directors authorizing such request, is received by the Federal Reserve Bank of the District not later than the 15th day of February of such third year."

By unanimous vote, the statement was approved with the understanding that it would be published in the Federal Register, and that a copy would be sent to the President of each Federal Reserve Bank with the following letter:

"Referring to previous correspondence and discussions with respect to the reclassification of central reserve and reserve cities, there is enclosed a copy of a statement of the Board incorporating the action which it has taken on this subject. This statement will be published in the Federal Register.

"As you will observe, the action taken by the Board adopts the proposal in the form in which it was published in the Federal Register for October 24, 1947, except that any city which is now classified as a reserve city and which does not meet the standards stated in the proposal will be continued as a reserve city upon request of all member banks in such city. Moreover, the standards prescribed by the Board will be reapplied at three-year intervals and cities will be brought into or excluded from the reserve city classification according to these standards as applied to then existing conditions. Any city which then has reserve city status but which does not meet the standards prescribed by the Board will again be permitted to retain its reserve city status upon request of all member banks in the city.

"It is requested that you send a copy of the enclosed statement to each interested member bank in your district by registered mail. In sending copies to banks in any city now classified as a reserve city but which does not meet the standards prescribed, please call attention to the fact that the city will be discontinued as a reserve city on March 1, 1948 unless written requests for its continuance are received by your Bank from all member banks in the city by February 16.

"It will be appreciated if you will forward to the Board as promptly as convenient all requests received by your Bank from member banks for the continuation of reserve city status. Should any such requests be received too late to permit of their being forwarded to reach the Board by February 16, 1948, it is requested that you advise the Board by wire of the receipt of such requests."

Mr. Szymczak referred to the statement of responsibilities of directors of Federal Reserve Banks and their relation to the Board of Governors which had been approved by the Board on November 21, 1947. He said that a copy of the statement had been handed to the Chairman of each Federal Reserve Bank present at the executive session of the Chairmen's Conference on December 2, 1947, with the understanding that the Chairmen would read it and submit any suggested changes to Mr. Shepard not later than December 16, and that Mr. Shepard had advised that the only change proposed was that the clause "when the action of the Directors in regard to the selection of senior executive officers of the Bank and the salaries to be paid officers and employees is subject to the approval of the Board of Governors," be substituted for the clause "when the Directors do not have final authority for the selection of senior executive officers of the Bank and the salaries to be paid officers and employees," in the last sentence of the first paragraph ending on page 2 of the statement.

Following a brief discussion of the statement, it was voted unanimously that the suggested change be approved and that copies of the statement be sent to the Chairman of each Federal Reserve Bank with a letter reading as follows:

"In connection with a discussion at the recent Chairmen's Conference of the topic 'Relation of the boards of directors of the Federal Reserve Banks to the Board of Governors', the Board distributed copies of a revision of "the statement relating to responsibilities of directors which has been sent to all new head office directors since 1943.

"It was understood that the Chairmen would read the revised statement and advise Chairman Shepard not later than December 16, 1947, whether they had any changes to suggest. The only change proposed was that the clause 'when the action of the Directors in regard to the selection of senior executive officers of the Bank and the salaries to be paid officers and employees is subject to the approval of the Board of Governors' be substituted for the clause 'when the Directors do not have final authority for the selection of senior executive officers of the Bank and the salaries to be paid officers and employees,' in the last sentence of the first paragraph ending on page 2 of the statement.

"In accordance with the established procedure, a copy of the statement incorporating this change is being sent direct to each of your head office directors who will take office on January 1, 1948. Copies are also enclosed, and the Board of Governors suggests that you hand a copy to each of the other head office directors of your Bank who will continue after the first of the year. As you know, the statement has been changed very substantially from its earlier form and the Board feels that it would be helpful if your directors would take time to read the revision."

Mr. Evans stated that in view of the passage by the Senate of S. J. Resolution 157, which would authorize the Board to regulate consumer instalment credit in accordance with and to carry out the purposes of Executive Order No. 8843, he had been giving consideration to the procedure that should be followed if the resolution was also passed by the House of Representatives at the special session and that he would like to have Mr. Parry outline the procedure he would propose that the Board follow.

Mr. Parry said that since the joint resolution had been proposed as an anti-inflation measure it would be his recommendation that, if the legislation was passed at the special session, the Board promptly issue a regulation similar to Regulation W, Consumer Credit, as it was in effect on November 1, 1947, except that the limitation of the Regulation to instalment credits of $2,000 be raised to $4,000, because of higher prices of automobiles and other durable goods usually purchased on instalments.

Mr. Solomon stated that if the joint resolution authorizing the Board to exercise consumer credit controls became law, it would create a situation differing somewhat from that which existed when Regulation W was issued under Executive Order No. 8843 in that, among other things, it would (1) make it possible for the Board to subpoena records in the event of alleged violations, and (2) it would empower the Board to obtain a court injunction against a violator.

Chairman Eccles said that in his testimony before Congress he had expressed the opinion that the legislation, if passed by Congress, should be broad enough to permit the regulation of all types of instalment credit, and that it would be desirable to broaden the regulation to cover all articles normally purchased on the basis of instalment payments. This would have the effect, he said, of limiting as much as possible by this means the use of instalment credit to add to inflationary pressures and retard the increase in individual debt at a time when individual incomes were the highest they had ever been.

Mr. Vardaman then made substantially the following statement:

> I opposed continuation of Regulation W under the executive order, not because I was against the regulation of consumer credit but because I regarded it as a wartime order and felt the Congress should act if it was to be continued. Now that Congress has acted--at least the Senate has acted--I am as much behind Regulation W as anyone. I agree with Chairman Eccles that as soon as Congress has taken action, if there is nothing in the legislative history indicating a desire to limit the scope of the Regulation, the Board should put the regulation into effect covering instalment credit on all durable and non-durable items selling above $50.

Mr. Parry stated that the articles which were listed in the Regulation on November 1, 1947, covered approximately two-thirds of the instalment credit volume and included all important items usually purchased on instalments, and that if other articles such as furs and jewelry were added they would bring within the scope of the Regulation a relatively small dollar volume of credit but would make many thousands of stores subject to the terms of the Regulation, thus greatly increasing the problem of administration. He also said that the Reserve Banks had been unanimous in feeling that such items as furs and jewelry should not be covered by the Regulation, that if Congress authorized the Regulation it would presumably have in mind its becoming effective as promptly as possible and substantial changes might cause a delay in making it effective, and that for these reasons he felt there was considerable doubt as to the desirability of broadening the list of articles.

Mr. Solomon stated that if Congress passed the necessary legislation, the regulation as effective October 31, 1947, could be issued immediately with an increase in the credit limit from $2,000 to $4,000 as suggested earlier, but that if the list of articles were broadened substantially it would be highly desirable to comply with the provisions of the Administrative Procedure Act with respect to notice of the proposed action.

There was general agreement that if Congress passed legislation authorizing the regulation of consumer credit, it should be made effective as promptly as possible, and that a further study of the desirability of broadening the list of articles covered by the Regulation should be made by Mr. Parry.

Reference was made to a memorandum prepared by Mr. Vardaman under date of December 18, 1947, with respect to the procedure to be followed in connection with the budgets submitted by the Federal Reserve Banks for the calendar year 1948. The memorandum was read and there followed a discussion of the desirability of requesting the Federal Reserve Banks to submit their budgets not later than October 1 of each year and of the suggestion contained under Item 4 of the memorandum that the Board give consideration next spring to the desirability of changing the dates on which the Federal Reserve Banks submit to the Board their recommendations for increases in officers' salaries.

Mr. Evans stated that the Personnel Committee might find the consideration of officers' salaries, along with recommendations for directors, rather burdensome if both came in the last months of the year, but he felt that the procedure could be tried out.

Mr. Carpenter then read a memorandum from Mr. Smead dated December 16, 1947, referring to the budgets of the Federal Reserve Banks and transmitting a memorandum analyzing them, together with a draft of letter to the Federal Reserve Banks stating that the Board would accept the budgets for 1948.

The draft of letter was discussed and, upon motion by Mr. Clayton, was approved unanimously in the following form:

"The 1948 budgets of the Federal Reserve Banks have been received and given a preliminary examination. In some cases additional information has been requested regarding substantial increases over 1947 expenses that do not appear to have been adequately explained, and regarding budget figures that appeared to be out of line with those of other Banks of comparable size or with System trends.

"Since it appears likely that it will be some time before all essential information requested is received and analyzed, the Board accepts the 1948 budgets as submitted by the Reserve Banks with the understanding that it will continue its detailed studies of budgets for the individual functions. During the course of these studies the Board "will explore ways in which the budget procedure can be improved and in case we have any further questions regarding the expenses of any functions or expense units we will communicate with you in regard thereto.

"For use in connection with the proposed studies, it will be appreciated if you will furnish the Board with a detailed break-down of the amounts provided in your budget for the item 'Employee Relations' under the Educational and Welfare unit and for the item 'Meetings, conferences, etc.' under the Bank and Public Relations function.

"Experience with the budget reports has indicated that the period from the first of November to the end of the year is not long enough to permit an adequate examination of the budgets and to obtain additional information from the Reserve Banks so that they may be given final consideration before the end of the year. Therefore, while it is realized that submission of the budgets several months in advance of the year-end poses some problems at the Banks, it is requested that your budget for 1949 and subsequent years be submitted in time to reach the Board not later than October 1."

At this point Mr. Thurston entered the meeting.

Chairman Eccles stated that in a discussion this morning with Mr. Rouse, Vice President of the Federal Reserve Bank of New York and Manager of the System open market account, the latter had stated that it appeared that examiners of national banks were putting pressure on such banks to write off premiums on Government bonds, and that it was felt this procedure might cause some banks to sell Government bonds in the market at a time when open market operations were designed to discourage selling as much as possible. Chairman Eccles stated that he had discussed this matter with Mr. Clayton, whose assignments include bank examination, and that Mr. Clayton would look into the matter and make a recommendation to the Board shortly after the first of the year as to the action to be taken.

Mr. Evans stated that the Personnel Committee recommended the appointment of Mr. Edward E. Hale, Professor of Economics at the University of Texas, as a director of the San Antonio Branch of the Federal Reserve Bank of Dallas for the three-year term commencing January 1, 1948. He outlined Mr. Hale's qualifications, stating that he was the first choice of Mr. Parten, Chairman of the Dallas Bank, for appointment as a director of the San Antonio Branch, that both Mr. Drought, an attorney at law, and Mr. Odom, a general contractor, who are presently directors of the San Antonio Branch, recommended Mr. Hale highly, that Mr. Dreibelbis, former General Counsel of the Board, stated that he felt he would make a good director, and that the only report which questioned his appointment was a statement from Mr. Gilbert, President of the Federal Reserve Bank of Dallas, indicating that Mr. Hale was regarded as holding liberal economic views which would not make him a popular appointee among the banking communities in Texas.

> There was a discussion of Mr. Hale's qualifications, at the conclusion of which it was voted unanimously to ask Mr. Parten by wire to ascertain whether Mr. Hale would accept the appointment if tendered, and to make the appointment if he would accept.

Mr. Evans then referred to the action at the meeting on December 17 with respect to the appointment of Mr. Charles P. Taft as a

Class C director of the Federal Reserve Bank of Cleveland, stating that a discussion of the possible appointment with Mr. Brainard, Chairman of the Cleveland Bank, had developed the information that Mr. Taft was recently elected a Councilman in Cincinnati, that he was an active party leader in a local political organization, and that there was no likelihood that he would give up political activities in order to accept an appointment as director of the Cleveland Bank. Mr. Evans stated that in these circumstances the Personnel Committee recommended that Mr. A. Z. Baker, President of the Cleveland Union Stock Yards Company, be reappointed as a Class C director for the three-year term commencing January 1, 1948, with the understanding that the Personnel Committee would continue its efforts to find a man who could be appointed as a Class C director of the Cleveland Bank when the next vacancy occurred who would be suitable as a replacement for either the Chairman or Deputy Chairman when their service ends.

> Following a discussion of Mr. Baker's attendance at directors' meetings, it was agreed unanimously that Mr. Brainard should be asked to find out whether it would be possible for Mr. Baker to improve his attendance and, if he indicated a willingness to do so, to make the reappointment.

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

Chairman Eccles stated that for some time he had been working very closely with Mr. Townsend, Assistant General Counsel, in connection with the bank holding company legislation now pending before Congress, and with Mr. Young, Assistant Director of the Division of Research and Statistics, particularly in connection with the preparation for the recent hearings before congressional committees on measures that might be adopted to combat inflation, and that their work had been of the highest order. He also said that Mr. Townsend felt that his title of Assistant General Counsel was somewhat of a handicap in his contacts on the outside on holding company legislation and in appearing before the courts in connection with litigation, and he had suggested that his title be changed to Associate General Counsel, and that Mr. Thomas had suggested that Mr. Young's title be changed to Associate Director of the Division of Research and Statistics. Chairman Eccles added that there were several departments and other agencies of the Government in which there were associate general counsel so that if Mr. Townsend's title were changed the Board would not be establishing a precedent in this regard.

In these circumstances, it was Chairman Eccles' suggestion that the titles of Messrs. Young and Townsend be changed by the Board and that the salary of each be increased to the rate of $13,500 per annum effective December 28, 1947.

In a discussion of various titles that might be considered for Mr. Townsend if the suggested action were taken, Chairman Eccles said the action would be with the distinct understanding that Mr. Townsend's position in the Legal Division would not be changed and that Mr. Vest would continue to have full authority in, and responsibility for, the Division.

At the conclusion of the discussion, it was voted unanimously that, effective December 28, the salaries of Messrs. Young and Townsend be fixed at $13,500 per annum and that their titles be changed to Associate Director of the Division of Research and Statistics and Associate General Counsel, respectively.

In accordance with a recommendation of the Personnel Committee, the salaries of Messrs. Carpenter, Secretary, and Leonard, Director of the Division of Examinations, were each increased from the rate of $12,000 to $13,500 per annum, effective January 1, 1948.

Chairman Eccles then called attention to a memorandum dated December 19, 1947, from Messrs. Thomas and Knapp submitting a request from the Philippine Government that the Board lend the services of David L. Grove and another member of its staff versed in research and statistics for a two-months' period to help, in their personal capacities, in the organization of the Philippine Central Bank and starting it in its operation. The memorandum recommended that the Board approve the assignment for this purpose of Messrs. Grove and Exter of the

Division of Research and Statistics for a period of not to exceed three months from January 1, 1948, including travel time to and from the Philippines. It also recommended that the Board pay the necessary transportation expenses involved and a per diem of $8 in the United States and en route and up to $20 in the Philippines. The memorandum set forth the background for the request of the Philippine Government and stated that the State and Treasury Departments and the Federal Reserve Bank of New York had been advised informally of the proposed action, that the State Department would recommend the action, that Messrs. Grove and Exter would consult with the Treasury and technicians of the Federal Reserve Bank of New York in order to obtain their views, and that it was possible that at a later date personnel might be requested from the Federal Reserve Bank of New York to assist in the establishment of the new central bank. It also stated that, in view of the fact that Mr. Exter's responsibility as a member of the Board's staff covered the far eastern area generally, the Board might be requested to authorize his visiting other far eastern countries upon completion of his work in the Philippines if it seemed desirable to make such a request when the time arrived.

The recommendations were approved unanimously together with separate letters to Messrs. Grove and Exter reading as follows:

"In compliance with the request of the Republic of the

"Philippines for your expert assistance in the development of its project for a central bank, the Board authorizes you to proceed to the Philippines for a period of as much as three months, including travel time. You will be accompanied on this mission by Mr. ____________. The Board desires that you make your services available to the Philippine Government in your personal capacity as an expert in monetary and banking problems. The Board is giving you no official instructions concerning the advice which you are to give the Philippine Government, and it is not expected that you will publish any formal recommendations of your own.

"In view of the exceptionally high cost of living in Manila, your per diem in lieu of subsistence has been tentatively established at $20.00 during your stay in the Philippines. It is understood, however, that the Philippine Government has in similar cases provided official representatives of the United States with hotel room and meals without charge or at a special rate. If you are provided with such facilities, your per diem is to be correspondingly adjusted on the basis described in the attached memorandum.

"You shall keep the Board informed of your movements from place to place, of the progress of your work, and of the advice given to the Philippine authorities so that if the Board's staff wishes to make any comment thereupon, it will be in position to do so.

"You should report to the American Embassy upon arrival in Manila and keep the appropriate officers of the Embassy informed concerning the general progress of your work.

"It is requested that you retain the original of this letter, and that the file copy, after being initialed by you, be returned to the Board's files."

In connection with the above matter the following letters to Under Secretary of State Lovett and to J. M. Elizalde, Ambassador from the Philippines, were also approved unanimously:

<u>Letter to Mr. Lovett</u>

"In response to a request from President Roxas, the Board of Governors has agreed to lend the services of two members of its staff to the Philippine Government in connection with the development of their project for a central "bank. The two men involved, Mr. David L. Grove and Mr. John Exter, will depart on or before January 1 to spend up to three months working with the Philippine Government in their personal capacities as experts in monetary and banking problems. They have been instructed to report to the American Embassy upon arrival in Manila and to keep the appropriate officers of the Embassy informed concerning the general progress of their work.

"I understand that the appropriate officers of the Department have been kept informed concerning the development of plans for this mission. It would be greatly appreciated if you would inform the Embassy in Manila of the pending arrival of Mr. Grove and Mr. Exter."

Letter to Ambassador Elizalde

"I should appreciate it if you would transmit to President Roxas on my behalf the following message in response to the request contained in his radiogram quoted in Mr. de Castro's letter of December 10, 1947 to Governor Clayton:

'Board of Governors of Federal Reserve System delighted to lend services of David L. Grove and John Exter for work on Philippine central bank project. Mr. Grove and Mr. Exter, serving in their personal capacities as technical experts, expect to arrive in Manila soon after first of year. Please make reservations Manila Hotel. Board joins me in wishing you success in your undertaking.'"

Reference was then made to the fact that when Mr. Knapp was in London in connection with the annual conference of the governors of the International Bank for Reconstruction and Development and the International Monetary Fund, he stayed with the other members of the American delegation at the Claridge's Hotel where all the delegation meetings were held and where the rates were about $13.00 a day for room alone, and that unless the Board approved some additional allowance to

Mr. Knapp the per diem of $15.00 approved in connection with his trip would not be sufficient to cover his expenses.

The members of the Board were unanimous in their view that Mr. Knapp should not be called upon to pay a part of his travel expenses and the Personnel Committee was authorized to approve such additional payment to him as it believed to be justified in the circumstances.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 18, 1947, were approved unanimously.

Telegram to Mr. J. Roy Faucett, Faucett Brothers, Northport, Alabama, reading as follows:

"Board of Governors of Federal Reserve System has appointed you director of Birmingham Branch of Federal Reserve Bank of Atlanta for three-year term beginning January 1, 1948, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. C. E. Brehm, University of Tennessee, Knoxville, Tennessee, reading as follows:

"Board of Governors of Federal Reserve System has appointed you director of Nashville Branch of Federal Reserve Bank of Atlanta for three-year term beginning January 1, 1948, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Allan Kline, Vinton, Iowa, reading as follows:

"Board of Governors of Federal Reserve System has appointed you Class C director of Federal Reserve Bank of

"Chicago for three year term beginning January 1, 1948, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Ben R. Marsh, Michigan Bell Telephone Company, Detroit, Michigan, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Detroit Branch of Federal Reserve Bank of Chicago for two year term beginning January 1, 1948, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. M. P. Moore, E. E. Moore and Company, Senatobia, Mississippi, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of the Memphis Branch of the Federal Reserve Bank of St. Louis for three year term beginning January 1, 1948, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Cecil W. Cotton, C. W. Cotton Supply Company, Tulsa, Oklahoma, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Oklahoma City Branch of Federal Reserve Bank of Kansas City for two year term beginning January 1, 1948, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to the board of directors of "The Community Bank and

Trust Company", New Haven, Connecticut, stating that, subject to conditions of membership 1 to 6 contained in the Board's Regulation H, 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 Boston.

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

"The Board of Governors of the Federal Reserve System approves the application of The Community Bank and Trust Company, New Haven, Connecticut, 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 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 Bank Commissioner for the State of Connecticut for his information.

"It is noted that corrective action is being taken with respect to the nonconforming savings accounts listed on page 16-(1) of the report of examination for membership and it is assumed that you will follow the matter of bringing such accounts into conformity with the law and the Board's regulations, also that the matter of effecting improvement in the bank's systems and controls will be followed to a satisfactory conclusion.

"While the Board has prescribed the standard conditions of membership pertaining to fiduciary operations it appears that the bank is not properly organized or staffed to administer fiduciary business. It is stated that assurance was given that solicitation of new trust business would not be undertaken without an adequate and trained staff. The Board feels, however, that no fiduciary business should be administered without proper organization to insure adequate supervision by directors and the application of collective judgment in the process of administration. It is requested, therefore, that the matter of securing proper organization be given "primary attention and that the Reserve Bank require that capable and adequate personnel be provided as needed.

"With respect to condition of membership numbered 6, it is understood that in the State of Connecticut a valid pledge of securities cannot be made, and compliance with the condition would have the effect of either compelling the bank to make possibly an illegal pledge or prohibiting the use of trust funds in the commercial or savings departments, although permitted under State law to do so. Accordingly, you are authorized, in accordance with the general authorization granted by the Board in its letter of July 17, 1945 (S-863; F.R.L.S. #3722.2) to waive compliance with this condition of membership until further notice."

Letter to Mr. Gilmore, Assistant Vice President of the Federal Reserve Bank of St. Louis reading as follows:

"This refers to your letter of December 15 regarding the penalty of $2.98 incurred by the National Bank of Mt. Olive, Mt. Olive, Illinois, as a result of a deficiency in reserves for the period ended October 31, 1947.

"In the circumstances stated in your letter, the Board approves the action taken by your Bank in not making the assessment."

Approved unanimously.

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

"Your telegram December 18. Board approves three months extension by your Bank to Banque de Grece of loan maturing December 24, 1947, not to exceed $10,800,000 outstanding at any one time, such loan to be secured by gold earmarked in your vaults. It is understood that the loan is to be made on terms and conditions outlined in your telegram as follows:

(A) Such loan to be made up to 98 per cent of the value of the refined gold bars held in your vaults as collateral;

(B) Such loan to mature not later than three months from the date thereof;

"(C) Such loan to bear interest from the date such loan is made until paid at the discount rate of your Bank in effect on the date on which such loan is made.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

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

"Your telephone message and wire December 18. Following consultation with Treasury and State, Board approves your expressing no objection to credit of $987,291.67 by Bank for International Settlements to Banca d'Italia Rome."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman.