

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 6, 1948.

PRESENT: Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 30, 1948, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 3, 4, and 5, 1948, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated April 29, 1948, from Mr. Szymczak recommending (1) that Daniel F. Lane, a messenger in Mr. Szymczak's office, be transferred to the Division of Administrative Services as an Operator (Duplicating Devices), with no change in his present basic salary of \$2,168.28 per annum, effective May 16, 1948; (2) that Miss Loverne Templeton, a stenographer in the Division of Administrative Services, be transferred to Mr. Szymczak's office as a stenographer and that her basic salary be increased from \$2,394 to \$2,469.24 per annum, effective May 16, 1948; and (3) that Fredrick L. Frost be appointed as a messenger in Mr. Szymczak's office with basic salary at the rate of \$2,093.04 per annum,

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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 Frost was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously, with the understanding that, inasmuch as Fredrick L. Frost's responsibilities would be those of serving Mr. Szymczak's office, should Frost's services be terminated, the Board would not be committed to his transfer to another position on the Board's staff.

Memorandum dated May 4, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Mrs. Florence Guild Nixon, an economist in that Division, be accepted to be effective, in accordance with her request, at the close of business May 7, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

Approved unanimously.

Memorandum dated May 5, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Miss Sophia Cooper, a research assistant in that Division, be accepted to be effective, in accordance with her request, at the close of business May 9, 1948, with the understanding that a lump sum payment would be made for annual leave remaining

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to her credit as of that date.

Approved unanimously.

Memorandum dated April 28, 1948, from Mr. Smead, Director of the Division of Bank Operations, recommending an increase in the basic salary of Mrs. Esther W. Conover, a clerk in that Division, from \$2,845.44 to \$3,021 per annum, effective May 16, 1948.

Approved unanimously.

Memorandum dated May 5, 1948, from Mr. Van Fossen, Assistant Director of the Division of Bank Operations, recommending that the resignation of Miss Doris Garrison, a clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business May 25, 1948.

Approved unanimously.

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

"This refers to Mr. Wiltse's letter of April 30, 1948, enclosing a copy of a letter from Mr. F. Wilder Bellamy containing advice that Mr. Bernon S. Prentice has made his decision to retire as a limited partner of Dominick & Dominick in order to comply with section 32 of the Banking Act of 1933.

"We note that Mr. Bellamy requests the Board's permission to have Mr. Prentice's retirement take place on June 30, 1948. He states that complications of accounting incident to the retirement of a partner will be more easily met if the retirement

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"takes place on June 30, and that Mr. Prentice is still ill and expects to leave within the next few days for Hot Springs where he will remain for six months. In view of these circumstances, you may advise Mr. Bellamy that the Board has no objection to Mr. Prentice's retirement from Dominick & Dominick taking place on June 30, 1948."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has considered the recommendation contained in your letter of April 23, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to each of the following banks to maintain the same reserves against deposits as are required to be maintained by banks outside central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter:

National Bank of Germantown and Trust Company, Philadelphia
 National Bank of Olney at Philadelphia
 The North Broad National Bank of Philadelphia
 North Philadelphia Trust Company
 Northwestern National Bank in Philadelphia
 Second National Bank of Philadelphia
 Security Bank and Trust Company of Philadelphia
 South Philadelphia National Bank of Philadelphia
 The Tioga National Bank and Trust Company of Philadelphia

"Please advise each of the banks of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

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"Reference is made to your letter of April 27, 1948, submitting the request of The Commerce Union Bank, Nashville, Tennessee, for approval of the establishment of a branch in Donelson, Tennessee, in connection with the proposed absorption of the Bank of Donelson, Donelson, Tennessee.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Donelson, Tennessee, by The Commerce Union Bank, Nashville, Tennessee, provided the absorption of the Bank of Donelson is effected as proposed and the formal approval of the appropriate State authorities is obtained, and with the understanding that counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the absorption and establish the branch.

"The proposed transaction appears to contemplate the disbursement of the capital of the Bank of Donelson and the assumption of its deposit liabilities by The Commerce Union Bank with no increase in the capital of the absorbing bank which is low in relation to total assets and to risk assets. Except in cases of emergency, the Board does not, as a general policy, favor absorptions involving disbursement of the capital of the bank absorbed, unless the capital position of the absorbing bank is altogether adequate.

"While improvement has been effected in the asset condition of The Commerce Union Bank and its capital accounts have been increased substantially through retention of earnings since admission to membership, it is not felt that its present capital position can be considered satisfactory. The Board is keenly aware of the bank's long record of delay and deferment of action with regard to increase of capital and disposition of stock of the Broadway National Bank of Nashville, through sale or liquidation and operation as a branch, which was promised at the time The Commerce Union Bank was admitted to membership. In the circumstances, you are requested to advise the bank that the Board will not be disposed to approve any further applications involving expansion unless the bank's capital is satisfactorily increased.

"It appears that the absorption is to be effected through purchase of assets and assumption of deposit

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"liabilities. If such is the case, the absorbing bank should acquire only such assets as it may purchase legally for its own account.

"In his letter dated April 23, 1948, Vice President Kellam states that The Commerce Union Bank has acquired the entire 300 shares of the outstanding stock of the Bank of Donelson. From this it would appear that the provisions of Section 9 of the Federal Reserve Act and Section 5136 U.S.R.S., have been violated."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of April 28, 1948, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k) (2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the E. G. Young & Company Bank, Oakland, Oregon, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"There have been no corrective programs urged upon the bank or agreed to, which have not been fully consummated and in connection with which the Board would suggest incorporation of conditions for continuing its status as an insured bank."

Approved unanimously.

Letter to the Honorable Charles W. Tobey, Chairman, Banking and Currency Committee, United States Senate, reading as follows:

"This refers to your letter of April 29, 1948, regarding S. 2564. The bill would exempt securities issued by the International Bank for Reconstruction and

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"Development from the Securities Act of 1933, from the Securities Exchange Act of 1934 and, with certain limitations, from the provisions of Section 5136 of the Revised Statutes which relate to dealings in securities by national banks and State member banks of the Federal Reserve System.

"The provisions of the bill follow a recommendation made to the President Pro Tempore of the Senate and the Speaker of the House by the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems. The Chairman of this Board is, as you know, a member of the Council. The Council expressed the view that the Acts which would be amended were not enacted with an international institution such as the Bank in mind and that compliance with their provisions would tend to hinder the raising of funds by the Bank in the United States markets. Accordingly, for these reasons and in view of the interest the United States has in the continued effectiveness of the Bank, the Council recommended that the Acts be amended.

"The Board is in entire accord with the conclusion of the National Advisory Council on this matter. The Board believes that the proposed changes are desirable, and it favors the enactment of S. 2564 for that purpose.

"The Board has given special consideration to the proposed exemption from the provisions of Section 5136 which relate to dealings in securities by member banks of the Federal Reserve System. Section 5136 in its present form prohibits such banks from acting as dealers in most types of securities. That Section, however, now includes exemptions for securities of the U. S. Government, of States and municipalities, and of a number of government instrumentalities. Because of the participation of the U. S. Government in the International Bank and this Government's special interest in the institution, the Board feels that the proposed exemption for the Bank's securities is a logical and desirable addition to the existing exemptions and that it does not represent any departure from existing principles."

Approved unanimously, together with a similar letter to the Honorable Charles A. Wolverton, Chairman, Interstate and Foreign Commerce Committee, House of Representatives.

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

"Following the receipt by Mr. Eccles of your letter of March 9 and the accompanying copy of your letter of the same date to Mr. Gilbert Perkins, Vice President of the Chemical Bank and Trust Company of New York, Governor Szymczak asked Mr. Julian Baird, President of the Association of Reserve City Bankers for a copy of the report of the Committee on Correspondent Bank Relations to which you referred as having been left with you by Mr. Perkins with a request for your comments. Subsequently, Mr. Aishton, Chairman of the Committee of which Mr. Perkins was a member, handed Governor Szymczak in Chicago a copy of the report and we have read the report as well as your letter to Mr. Perkins with considerable interest.

"The conference referred to resulted from correspondence initiated by Mr. Baird following protests that had been made against the absorption by the Reserve Banks of transportation charges on direct sendings of member banks, as a result of which Mr. Baird expressed a desire that Mr. Aishton's Committee on Correspondent Bank Relations be given an opportunity to meet with members of the Board's staff regarding other matters that might be developing which would be of interest to the Association. The Board's response of course was that it would be agreeable to such a conference at any convenient time and suggested that it would be helpful if there could be indicated in advance any particular line of thought which the Committee wished to take up or project the Committee had in mind so that we might be better prepared, but were advised that there were no particular lines of thought that they wished to discuss with our staff - in fact, they were looking forward to the meeting being more or less exploratory in character. Because of the fact that there was no agenda for the proposed conference, there was no satisfactory basis for extending an invitation to anyone from the Reserve Banks to come to Washington to participate.

"As stated in the last paragraph of the report you received, the whole discussion was quite informal and amicable. Mr. Aishton stated that there had been rumors

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"that the Board was contemplating making very substantial changes in the check collection procedures at the Reserve Banks and that it would be helpful if his Committee could have a frank discussion with representatives of the Board of the whole problem. He referred specifically to the granting by the Reserve Banks of immediate credit for cash items and a reduction in the number of sorts. He also referred to the decision last year to reimburse member banks for postage on direct sendings and stated that while that had turned out to be a matter of minor importance it would have avoided misunderstanding if it could have been discussed in advance.

"In response it was explicitly stated that no one present could undertake to speak for either the Board or the Reserve Banks and that whatever might be said should be taken as purely personal expressions. Governor Vardaman, who attended the conference, emphasized that in anything he might have to say he was not speaking for anyone except himself.

"In the course of Governor Vardaman's remarks he predicted that action on the question of immediate credit would take place within a period of a year. In the ensuing discussion it was made clear that a decision had not been reached as there were undoubtedly differences of opinion which would have to be explored first, within the Board's own organization and among the Federal Reserve Banks, and that if a decision were reached to put such a plan into effect, it would take considerable time for the Reserve Banks to make the necessary changes in organization and procedure, which would consume at least a year or two. In connection with expressions of feeling that such action would mean that the Reserve Banks were competing with commercial banks in the correspondent banking field, it was pointed out that such a step would not mean any financial benefit to the Reserve Banks, as it would cause additional operating expenses, and that it would have to be weighed on its merits as a further improvement in the services rendered by the Reserve System, not only to the banks but to agriculture, commerce and industry in general. Some of the past substantial progress that had been made in that direction was reviewed. It was stated, however, that it would not seem desirable in the existing inflationary circumstances

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"to make available the substantial additional reserves that would be created in this way. That would be a step that should, if adopted, become effective under deflationary conditions. It was in that connection that the comment was made that consideration might well be given to what should be the reserve requirements if immediate credit were allowed.

"With respect to the Recordaking of outgoing cash items, it was not the intention to give the impression that all Reserve Banks planned to institute this procedure although some of them propose to do so. As stated in the last paragraph of the circular of the Federal Reserve Bank of Chicago, No. 1331 of April 10, 1948, even after the requirements of the Reserve Banks as to the description of cash items are eliminated, member banks depositing items with the Reserve Banks for collection should, in the interest of sound banking, maintain adequate records to enable them to identify their depositors and charge back items in the event they are lost or destroyed.

"While other subjects were discussed at more length than indicated in Mr. Aishton's report, it does not seem sufficiently important to go further than above stated to correct certain erroneous impressions that might arise from the report in its present form.

"It might be added that Governor Szymczak was told by Mr. Aishton that the next to the last paragraph of the report would be eliminated. No such discussion took place in the conference with the staff. Also, while the caption of the report refers to a 'two-day session, January 27-28, with the staff members of the Federal Reserve Board in Washington', this apparently was inadvertent because, as subsequently indicated in the report, there was only one meeting between Mr. Aishton's Committee and members of the Board's staff. This was on the morning of January 28.

"We are sending copies of this letter to Mr. Aishton and Mr. Baird for their information."

Approved unanimously.

Letter to the Honorable Joseph J. Lawler, Third Assistant Postmaster General, Post Office Department, reading as follows:

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"Reference is made to Mr. Black's letter of October 15, 1943, in which the Board was advised that tentative arrangements had been made with the Texas Highway Patrol whereby convoy service would be provided when needed for valuable registered mail handled over the star route from Big Spring to Lamesa and O'Donnell during the cotton picking season of 1943. It now appears that the large increase in activity in the Texas South High Plains Area has created unusual currency requirements during the cotton season and that the banks in the area have been put to considerable inconvenience because of inadequate registered mail service.

"The present complaints arise from the reestablishing by postal authorities of the restrictions as to the amounts of valuable registered mail shipments that may be transported via star routes. Five of these star routes are reported to operate out of Lubbock, Texas, the heart of the cotton growing area, and the sixth operates out of Sweetwater. It is understood that the restrictions were reestablished as a result of a sudden withdrawal of convoy service in November 1947 because of heavy demands being made on the Texas State Department of Public Safety to maintain peace and order, incident to the thousands of itinerant workers then coming into the area.

"Twenty-one banks, all members of the Federal Reserve System, advise that the restrictions as to day of delivery as well as to the amount they may receive did not permit them to have on hand sufficient currency to meet the payroll requirements for these same itinerant workers during the latter part of the 1947 cotton picking season. These banks are located in the following communities:

Amherst	Levelland	O'Donnell
Anton	Littlefield	Ralls
Brownfield	Lorenzo	Roby
Crosbyton	Morton	Rotan
Lamesa	Muleshoe	Seminole
Sudan	Tahoka	

"The Federal Reserve Bank of Dallas has asked the Board to bring this matter to your attention in the hope that some improvement can be made in the registered mail service to the area affected, and has submitted a considerable amount of data in support of its position which

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"we will be glad to bring over and discuss with representatives of the Department if desired."

Approved unanimously.

Letter to Mr. R. P. Briggs, Vice President, The Regents of the University of Michigan, Ann Arbor, Michigan, reading as follows:

"This will confirm your letter of March 30 relative to the letter agreement between the Board of Governors of the Federal Reserve System and the University of Michigan covering a Third National Survey of Consumer Finances. It is understood that the cost of the additional interviews, tabulation and analysis, as requested by the Board, through direct negotiation between Mr. Ralph A. Young of our office and Mr. Rensis Lickert of your office, will not exceed the \$8,000 mentioned in your letter of March 30. It is further understood that if the additional cost is less than this amount, the bills rendered to the Board will be adjusted accordingly.

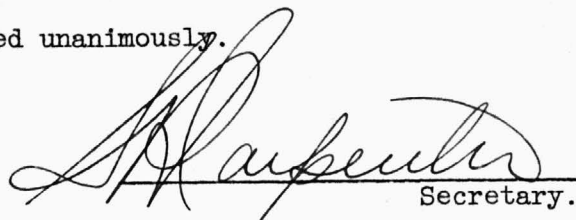
"I am returning herewith a copy of your letter agreement of March 30, duly accepted on behalf of the Board."

Approved unanimously.

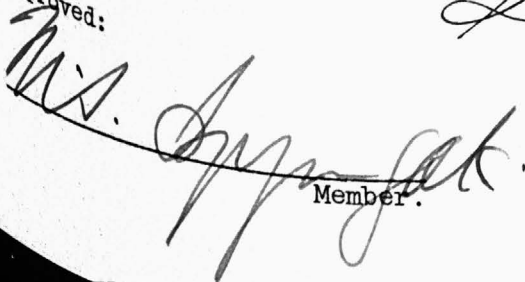
Telegram to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire May 3. Members of Board who are available will be glad to meet with your Building Committee at 2:30 p.m. on Tuesday, May 18."

Approved unanimously.


Secretary.

Approved:


Member.