

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 11, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Draper

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on June 8, by the Federal Reserve Bank of Atlanta on June 9, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on June 10, 1948, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a telegram to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel June 8, Board approves effective June 11, 1948, elimination of special maximum commitment rate on loans under Section 13b guaranteed under Regulation V. Otherwise Board of Governors of Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated June 8."

Approved unanimously.

There was presented a memorandum dated June 10, 1948, re-

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ferring to bill H.R. 6570, a bill to permit a national bank to convert into or consolidate with a State bank. The memorandum stated that the Board had indicated that it had no objection to the bill, but that at a hearing before the House Banking and Currency Committee on June 9, 1948, an amendment was proposed which, among other things, would permit retention by a national bank of all branches of predecessor banks in the event of conversion, consolidation, or purchase of assets of another bank without regard to State law governing branches of State banks. The memorandum outlined the possible effects of the amendment and stated that while the bill had been reported out without the amendment, the Chairman of the House Banking and Currency Committee, with the thought that the amendment might be offered on the floor, had requested the Comptroller of the Currency and the Federal Deposit Insurance Corporation to submit reports as to their views concerning such an amendment. The memorandum also stated that although the Board had not been asked for a report the question was presented whether the Board should submit a report in opposition to the amendment, but that in view of the fact that there was little chance that it would be adopted in the face of adverse reports from the Comptroller of the Currency and the Federal Deposit Insurance Corporation and probably opposition by the American Bankers Association, it was recommended that no report be submitted.

There was a discussion of the proposed amendment, and it was agreed unanimously that the Board should not submit a report on the amendment.

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Chairman McCabe stated that Mr. William Clarke Mason, an attorney in Philadelphia, recently sent him a draft of a Commercial Code being prepared by a committee of the American Law Institute of which Mr. Mason was a member. He also said that the Code contained provisions relating to bank collections, the uniform negotiable instruments law, and other subjects in which the Federal Reserve System is interested, that Mr. Mason, whom he knew personally, had indicated that he would be glad to have the benefit of any suggestions which the Board or the Federal Reserve Banks might wish to make in connection with the preparation of the Code, and that he (Chairman McCabe) had sent Mr. Mason a letter dated June 6, 1948 reading as follows:

"I have talked with the Board's General Counsel regarding the draft of the Commercial Code prepared by the committee of the American Law Institute of which you are a member.

"It is our feeling that certain portions of this Code, particularly the chapter on Bank Collections and perhaps the chapter on the Negotiable Instruments Law, are matters with which the Federal Reserve Banks are particularly concerned. Counsel for the Reserve Banks were furnished informally with an earlier draft of the chapter of the Code relating to Bank Collections. Accordingly, it would be very desirable for Counsel for these Banks or possibly a committee of them to have an opportunity to go over the latest draft of the parts of the Code with which they are especially concerned and to make comments and suggestions to you or to the appropriate Committee of the American Law Institute. I assume there would be no objection on your part or on the part of the Law Institute to this procedure

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"but I will be glad if you will advise me as to this. I will appreciate it also if you will let me know what is the deadline for submission of comments regarding the Code.

"In this connection, while I do not wish to put you to any trouble in the matter, would you be good enough also to inform me where we might secure fifteen or twenty copies of the latest drafts of the various parts of the Code with the notes and comments thereon.

"I hope that this suggested procedure will be agreeable to you. I am sure that it will be helpful for the Federal Reserve Banks to have a chance, through their lawyers, to look this Code over."

Mr. Vest stated that the preparation of the Code was a complicated and technical subject, that it required considerable study, and that it was a matter in which the Reserve Banks had an especial interest. He pointed out that the American Law Institute, which was drafting the Code in collaboration with the National Conference of Commissioners on Uniform State Laws, expected as soon as the Code was approved by each of these bodies to present it to Congress for enactment and thereafter to present it to individual State legislatures for adoption. Mr. Vest also stated that he felt that Counsel for each Federal Reserve Bank should have an opportunity to examine the draft and to submit comments thereon, and that it would be desirable for a Committee of Counsel of the Presidents' Conference to review the comments submitted by the individual Counsel and to submit directly to Mr. Mason or to the appropriate officials of the

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American Law Institute any comments or suggestions that such a Committee might feel were advisable; and that in order to work out a practical procedure for a review of the matter by Reserve Bank Counsel the matter should be taken up with Mr. Davis, Chairman of the Presidents' Conference.

Before this meeting there had been sent to each member of the Board a copy of a memorandum addressed to Mr. McCabe by Mr. Vest under date of June 9, 1948, and the matter was discussed in the light of the information contained in the memorandum.

Mr. Eccles stated that he felt that it would be undesirable for the Board or the Reserve Banks to take official action concerning the provisions of the Code but that he would be in favor of having the Code reviewed informally by the Board's Counsel and a Committee of Counsel of the Presidents' Conference, so that their views could be given or transmitted to Mr. Mason or the Law Institute for consideration.

It was agreed unanimously that Mr. Vest should take the matter up with Mr. Davis, Chairman of the Presidents' Conference, and that, if he was agreeable, the Code should be reviewed by Reserve Bank Counsel and the Board's Counsel and comments transmitted to the Law Institute, in accordance with the procedure suggested by Mr. Vest or such other practical procedure as might be deemed advisable, without the necessity for action by the Reserve Banks or by the Board with respect to any such comments.

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Chairman McCabe stated that the Personnel Committee, at its meeting on June 9 and 10, 1948, had considered the matter of a review of salaries in, and organization of, the International Section of the Board, that it had invited Mr. Thomas, Director of the Division of Research and Statistics, into the meeting for the purpose of expressing his views, and that the question of a review of the International Section had been further discussed with Messrs. Thomas, Riefler, and Nelson at a meeting on June 10. Chairman McCabe went on to say that there appeared to be a difference of view between Mr. Thomas and the Division of Personnel Administration concerning salary administration in the International Section and in the Research Division generally, and that he felt it would be desirable for Mr. Johns, Vice President of the Federal Reserve Bank of Kansas City, who is temporarily at the Board's offices in accordance with the arrangement approved on April 29, 1948, to make a survey of the International Section, working in close collaboration with Messrs. Thomas, Nelson, and Riefler. He stated that Mr. Johns, who was General Counsel of the Kansas City Bank, was also the personnel officer of that Bank, that he had a sympathetic view of research work, and that he appeared to be a person who could make an objective study and submit results which might be helpful to the Personnel Com-

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mittee in arriving at a conclusion as how best to proceed. He went on to say that Mr. Draper and Messrs. Thomas and Nelson were agreeable to the proposal, that Mr. Vardaman, as the other member of the Personnel Committee, and Mr. Evans, the member of the Board whose assignments of matters for initial consideration included the Research Division, were agreeable to it, and that Mr. Szymczak, who had an interest in international matters, also had indicated he felt such a survey by Mr. Johns would be desirable.

In response to a question by Mr. Eccles as to Mr. Johns competency to make suggestions on a personnel problem in the field of international research, Chairman McCabe said that Mr. Johns would work closely with Mr. Riefler who did have competency in that field.

Mr. Eccles suggested that Mr. Morrill be asked to collaborate on the study.

Following a discussion, it was agreed unanimously that Mr. Johns should be asked to undertake the survey proposed by Chairman McCabe, with the understanding that he would work closely with Messrs. Thomas and Nelson and would collaborate with Messrs. Morrill and Riefler in the conduct of the study.

At this point Messrs. Riefler and Vest withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

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Letter prepared for Chairman McCabe's signature to the Honorable Burnet R. Maybank, United States Senate, reading as follows:

"I regret very much that my illness has delayed a more prompt reply to your letter of May 28 in which you request copies of three letters to which reference was made at the hearing before the Banking and Currency Committee in connection with my nomination to the Board of Governors of the Federal Reserve System.

"Copies of the three letters listed in your letter are enclosed, but inasmuch as these communications were not included in the printed record of the hearing and have not been otherwise released, the Board is forwarding them to you for your personal and confidential information."

Approved unanimously.

Memorandum dated June 10, 1948, from Mr. Carpenter recommending that the resignation of Miss Martha H. Searcy, a file clerk in the Office of the Secretary, be accepted to be effective, in accordance with her request, at the close of business June 30, 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 June 9, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Enid W. Staley, a printing clerk in that Division, be accepted to be effective, in accordance with her re-

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quest, at the close of business June 25, 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.

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 June 10, 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 Community State Bank, Grandville, Michigan, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"There are no unfulfilled conditions or incomplete corrective programs with respect to the member bank in connection with which the Board would suggest incorporation of conditions for continuing its status as an insured bank.

"For some time the Reserve Bank has felt that the capital position of the bank was unsatisfactory and has been urging that its capital be increased. Recently an increase has been effected, the sufficiency of which may be open to question. However, it is understood that the present plans of the bank contemplate a merger with another institution and it is assumed that the matter of sufficiency of capital will be considered in the review of the entire transaction. Nevertheless, it is felt that you may be interested in the opinion of the Reserve Bank that one of the principal reasons for the failure of the bank's net earnings to keep pace with its growth in asset volume has been excessive salaries of officers and fees to directors."

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks reading as follows:

"In accordance with the program for revision of conditions of membership which was discussed at the recent Presidents' Conference, the Board is prepared to amend Regulation H to:

- (1) Eliminate from Section 6 standard condition of membership numbered 3, the three trust conditions, and the related footnotes numbered 10, 11, 12, 13, and 14;
- (2) Add the following paragraph to footnote numbered 6:

'For many years, the Board prescribed, as standard conditions of membership, a condition which, in general, prohibited banks from engaging as a business in the sale of real estate loans to the public and certain conditions relating to the exercise of trust powers, including one which prohibited self-dealing in the investment of trust funds. The elimination of these conditions as standard conditions of membership does not reflect any change in the Board's position as to the undesirability of the practices formerly prohibited by such conditions; and attention is called to the fact that engaging as a business in the sale of real estate loans to the public or failing to conduct trust business in accordance with the applicable State laws and sound principles of trust administration may constitute unsafe or unsound practices and violate condition numbered 1.'

- (3) Renumber in serial order footnote numbered 15 and those following.

"The amendment to the regulation will become effective at some future date to be determined by the Board, which will permit the issuance of the amended regulation to be synchronized with the cancellation of certain conditions of membership now applicable to State member banks, which is part of the program for revision of conditions of membership.

"Effective this date standard condition of membership numbered 3 and the three trust conditions will not be prescribed in the case of current applications.

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"The program contemplates that, in the interest of uniformity, the conditions of membership applicable to each State member bank will be reviewed with a view to cancelling conditions of a kind which would not be prescribed were the bank applying for membership at the present time and those conditions which required certain action be taken by the member bank and have been complied with. It is expected that this program of review and cancellation will result generally in the retention of those conditions similar to standard conditions numbered 1 and 2, and of such special conditions as would be prescribed were the bank applying for membership now.

"The Reserve Banks are requested, therefore, to forward to the Board as promptly as practicable their recommendations as to which conditions should be cancelled and which conditions be retained for each State member bank. It is requested that the recommendation be submitted in schedule form in duplicate, with the schedule showing in columnar form:

- (1) Name and location of bank
- (2) Numbers of the conditions recommended for cancellation
- (3) Numbers of the conditions recommended for retention

"The Board will review the recommendations, advise the Reserve Banks as to the conditions which have been cancelled, and authorize the Reserve Banks to advise the member banks of the cancellation of the conditions and to furnish them with clean drafts of the conditions which remain in force. A copy of the form of letter to be used for this purpose will be furnished later.

"The program involves a considerable volume of work both on the part of the Reserve Banks and the Board, but the Board hopes that the program can be completed by September 1, if not August 1. If it appears that your Bank cannot submit its recommendation with respect to all State member banks in its district by June 28, it is requested that it submit as many recommendations as possible to reach us not later than that date, in order that the work may proceed without delay.

"Some banks are subject to conditions which are comparable in substance but not identical in form with standard

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"conditions numbered 1 and 2. These original conditions would be continued under the program of revision. In 1936, for example, two standard conditions were consolidated into present standard condition numbered 1, and two other standard conditions were consolidated into present condition numbered 2.

"Because of these minor variations there may be some banks which would like to accept the new standard conditions in lieu of the comparable original conditions. If, after receipt of the advice of cancellation, any member bank should express a desire to do so, it will be permitted by formal action of its board to accept in lieu of its original conditions of membership the revised standard conditions with any of the other original conditions that should be retained. Such requests will, of course, require approval by the Board of Governors in each instance. In this connection, the Board feels that no State member bank should be asked to accept new conditions to which it is not already subject and that any request for the substitution of standard conditions in lieu of other conditions should be solely upon the initiative of the member bank.

"No public announcement will be made of the amendment of Regulation H or of the program for revision of conditions of membership until about the time it is to be made effective.

"If you have any questions as to the program, the Board and its staff shall be glad to try to answer them."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"The revisions being made in the condition report form, which were described in the Board's letter of May 13, also require a change in the weekly condition report form. The changes in the weekly report affect only the loan items, which are to be reported gross instead of net as at present, followed by a deduction of the total amount of valuation reserves allocated to loans. A copy of the revised form (F. R. 416) is enclosed. In submitting the data to the Board, whether

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"by mail or by telegraph, it is not necessary to use the two new sub-totals, items 1(g) and 1(i); a column or code word PRAL for the new deduction item 1(h) will suffice.

"It will be appreciated if your Bank will obtain weekly reports on the new basis beginning with Wednesday, June 30. Inasmuch as weekly reporting member banks hold approximately 70 per cent of loans of all member banks and 60 per cent of all commercial banks, it is suggested that the reporting banks be asked to show in their reports as of June 23, 1948, the amount of reserves for bad debts, unallocated charge-offs, and other valuation reserves allocated to and deducted from each of the loan items, 1(a) to 1(f), on that date. The amounts allocated may be shown on the member bank's report as a memorandum item against the net amount of each class of loans. It is further requested that, if the total amount of such reserves as reported on June 30 against new item 1(h) is substantially larger than the total amounts allocated on June 23, the reporting banks be requested to advise whether the addition came from capital accounts or merely by way of transfer of reserves previously included elsewhere, for example, in all other liabilities.

"The additional information should be included in the summary and transcript of weekly reports which you send to the Board. If your Bank telegraphs weekly condition figures, please report the additional information as of June 23 as follows:

PRAL breakdown:

Code Words	Amount
PADA, etc.	(in thousands rather than usual millions)

In your report for June 30 please show the increase, if any, in the reserves reported according to the accounts from which transferred.

"The supplementary information on reserves as of June 23 and 30, if the reported amounts prove to be fairly substantial, will be made available to users of loan series to assist them in adjusting the break in the series on a comparable basis."

Approved unanimously, with the understanding that the letter would be sent when the forms referred to therein are printed and ready for distribution.

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Letter to the Honorable Tom C. Clark, The Attorney General,
reading as follows:

"The Board of Governors has asked me to reply to your letter of May 12, 1948, in which you request that the Board appoint a director to head a voluntary solicitation of funds for The Children's Crusade from the employees of the Board.

"In the past it has been the policy of the Board to restrict the solicitation of donations of this kind to national campaigns such as the Community Chest, the American Red Cross, and the 'Mile O' Dimes'. The reason for this has been that to undertake a wider activity would constantly raise questions as to where the line should be drawn. Therefore, it would not be consistent with our policy actively to solicit employees for contributions to the Children's Crusade.

"While our organization is comparatively small, some of the members of the staff are interested in the work of aiding the distressed peoples in Europe and Asia, and if you will have forwarded to Mr. Herbert Johnson, Personnel Officer, approximately 50 pledge cards, we will be glad to see that the employees are advised that they may contribute to the campaign through his office if they so desire."

Approved unanimously, together with the following letter to Mrs. Clarence A. Aspinwall, Chairman of the Civil Relations Committee, The Board of Lady Visitors, The Children's Hospital, Washington, D. C. This action was taken with the understanding that the Secretary would make appropriate similar replies to letters received in the future requesting solicitation of funds, without referring them to the Board:

"The Board of Governors has asked me to reply to your letter of May 17, 1948, suggesting that a collective gift from the employees of the Board be sent to the Children's Hospital Building Fund.

"In the past it has been the policy of the Board to restrict the solicitation of donations of this kind to

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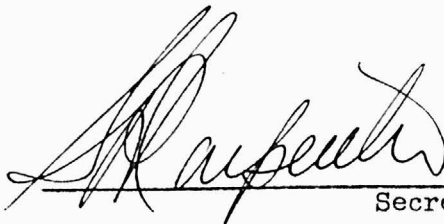
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"national campaigns such as the Community Chest, the American Red Cross, and the 'Mile O' Dimes'. The reason for this has been that to undertake a wider activity would constantly raise questions as to where the line should be drawn. Therefore, it would not be consistent with our policy actively to solicit employees for contributions to the Building Fund of the Children's Hospital.

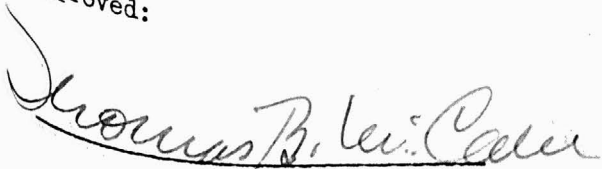
"While our organization is comparatively small, some of the members of the staff are interested in the work of the Children's Hospital and, if you will have forwarded to Mr. Herbert Johnson, Personnel Officer, approximately 50 pledge cards, we will be glad to see that the employees are advised that they may contribute to the Fund through his office if they so desire."

Memorandum dated June 9, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending reimbursement to the Federal Reserve Bank of Minneapolis for an expense voucher and receipted individual expense accounts in the amount of \$947.30, covering expenses incurred by the four employees of the Federal Reserve Bank of Minneapolis who assisted in the recent examination of the Seattle and Portland Branches of the Federal Reserve Bank of San Francisco.

Approved unanimously.


Secretary.

Approved:


Chairman.