

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 3, 1948. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations

Reference was made to a memorandum prepared by Mr. Leonard under date of July 13, 1948, recommending that the following letter be sent to the Reserve Banks. The memorandum and draft of letter had been circulated to all members of the Board before this meeting:

"The established policy for many years as to the frequency of examination of State member banks is that at least one regular examination of each State member bank, including its trust department, be made during each calendar year by examiners for the Reserve Bank of the district, with additional examinations if considered desirable. During the war years the Reserve Banks were advised that if, because of shortage of manpower or for any other reason, it should be impracticable to continue the policy of examining each State member bank at least once a year, it would be expected that examinations would be deferred only in those cases where the banks were in good condition and under capable management.

"Even during the war years the schedules were largely maintained and in its Annual Reports the Board stated that the programs of examination in

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"accordance with the established policy had been substantially completed.

"The records show that in 1945 25 State member banks in 3 districts were not examined during the calendar year; in 1946 the number not examined during the year fell to 12 located in 4 districts; in 1947 the number increased to 32 located in 5 districts. These figures are after exclusion of a few banks examined twice during a calendar year when a second examination made as of December 30 or 31 was considered, for schedule purposes, as an examination made during the following calendar year.

"The Board hopes that during the current year, and in future years, the Reserve Banks will be able to meet their schedules under the established policy without exception.

"In some cases the failure to examine all State member banks during the year has been due to the fact that a State Banking Department wished to join in the examinations but was unable to meet the schedule and requested that the examinations be deferred until a later date when the State examiners could participate.

"The Board fully appreciates the desirability of the Reserve Banks maintaining close and cordial relations with the State Banking Departments and of working in cooperation with them. The Board suggests, however, that if a Reserve Bank be faced with such a situation it endeavor to work out with the State Banking Department satisfactory arrangements whereby the schedules may be completed through either joint examinations or independent examinations. If, in any such situation you feel that it would be inadvisable to endeavor to work out such arrangements, please let the Board know as to the circumstances.

"In other cases failure to complete the schedule has been due to the numerical inadequacy of the examining staff of the Reserve Bank or to the assignment of examiners to special assignments other than examinations. The Board hopes that it will not be necessary to defer examinations for these reasons and that, if the staff is inadequate in size, the Reserve Bank will be successful in building it up with competent and qualified examiners. If the difficulties are due to the temporary assignment of examiners to other work,

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"it is hoped that arrangements can be made, perhaps through the borrowing of examiners from another Reserve Bank, to permit the examination of all State member banks during a calendar year.

"Of course, if, despite all reasonable efforts to complete a schedule, it is necessary to defer some examinations, it is assumed that the only examinations deferred will be of banks in good condition and under capable management.

"It will be appreciated if you will advise the Board as to the prospects at this time for completing the schedule of examinations this year. It will also be appreciated if you will keep the Board advised from time to time of developments which indicate inability to complete the schedule of examinations during a calendar year."

Mr. Vardaman stated that he had suggested that such a letter be sent because he felt that the annual examination of each member bank was very important and that shortages of help and inability of State banking departments to schedule joint examinations within a calendar year should not be permitted to cause the Reserve Banks to fall behind in the schedule of examinations of State member banks.

Mr. Leonard amplified the comments in his memorandum, stating that at San Francisco unusual demands for the help of examiners in connection with the Clayton Act proceeding against Transamerica had been a contributing factor, and that in the New York and Chicago districts the schedules for examination of State member banks in New Jersey and Indiana, respectively, had not been met owing to the fact that the banking departments of those States

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desired to participate in the examinations but were unable to do so during the year and requested that they be deferred and made during the early part of the following year. Mr. Leonard added that the schedule calling for annual examinations had been much better maintained by the Federal Reserve System in the case of State member banks than by the Federal Deposit Insurance Corporation in the case of nonmember insured banks, and that it was also ahead of the performance of the Comptroller of the Currency with respect to national banks.

Upon motion by Mr. Vardaman, unanimous approval was given to the foregoing letter to be sent to the Presidents of all Federal Reserve Banks.

There was presented a draft of letter for Chairman McCabe's signature to Mr. A. P. Giannini, Founder-Chairman of Transamerica Corporation, San Francisco, prepared in response to Mr. Giannini's letter of July 23, 1948, questioning the Board's authority to institute a proceeding against Transamerica under the Clayton Act and asking that an opinion be obtained from the Attorney General of the United States. The draft had been circulated among the members of the Board before this meeting and stated that the Board was satisfied that the Clayton Act authorized the Board to institute a proceeding under the circumstances involved in the Transamerica situation and that it did not appear necessary to submit the matter to the Attorney General.

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Mr. Vest stated that the legal question involved was whether, under the applicable provisions of the Clayton Act, the Board, rather than the Federal Trade Commission, had authority to bring the action against Transamerica Corporation which is not a bank.

This point was discussed and Chairman McCabe raised the question whether the Board should authorize Mr. Vest to discuss the draft of letter informally with Attorney General Clark before mailing it, stating that inasmuch as the Attorney General was mentioned in Mr. Giannini's letter it might be desirable to give the Department of Justice a chance to make suggestions concerning the Board's reply.

There was a difference of opinion with respect to Chairman McCabe's suggestion, some of the members feeling that the matter should not be taken up with the Attorney General and that he should not be advised of the matter or not until after the reply had been sent when copies of the incoming and outgoing letters might be sent to him for his information.

Mr. Vest stated that he had talked with Mr. Townsend, Associate Counsel, by telephone concerning the letter from Mr. Giannini, that Mr. Townsend agreed that a short reply should be made along the lines of the proposed letter, but that the question whether the reply should be taken up with the Attorney General's

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office either before or after it was mailed had not been discussed. Mr. Vest added that he would prefer not to take the matter up with the Attorney General's office either before or after mailing the reply but that if it were to be done at all he felt it should be done before the reply had been sent. He also said that Mr. Townsend had been in touch with Mr. Holmes Baldridge of the Anti-Trust Division of the Attorney General's office and that it would be possible to discuss the matter informally with Mr. Baldridge.

Following a further discussion of the matter, Mr. Szymczak moved that the draft of letter be read by Mr. Vest over the telephone to Mr. Townsend and that, if Mr. Townsend agreed, a copy be handed by Mr. Vest to Mr. Baldridge with the statement that the Board wanted to keep the Attorney General informed and that it intended to send the letter to Transamerica Corporation.

In a discussion of Mr. Szymczak's motion, Messrs. Vardaman and Clayton stated that they felt strongly that the letter should not be submitted to the Attorney General's office even informally before the Board had made its reply to Mr. Giannini and that if the motion contemplated such procedure they would have to vote against it.

Mr. Carpenter stated that Mr. Eccles was appearing before the Banking and Currency Committee of the House of Representatives this morning and, therefore, could not be present at

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this meeting, but that he had asked that, if any matter arose in which there was a difference of opinion, action with respect to it be deferred for a meeting at which he could be present.

In response to an inquiry from Chairman McCabe, Mr. Vest reiterated that he would prefer not to submit the letter to the Attorney General's office but that if it were decided to furnish a copy to that office he felt it should be done before the letter had been mailed. Chairman McCabe then said that in view of Mr. Vest's feeling he felt the question of submitting the letter to the Attorney General should be left for the decision of the Legal Division.

Mr. Szymczak amended his motion to provide that the draft of reply be read by Mr. Vest to Mr. Townsend over the telephone, that if Messrs. Vest and Townsend felt that the matter should not be taken up with the Department of Justice at all or that copies of the incoming letter and the Board's reply should be sent to the Department of Justice only after the reply had been mailed the procedure recommended by them be followed and the reply in substantially the form presented at this meeting be mailed, but that if they should decide that the Department of Justice should be informed before the reply was sent the matter would be considered by the Board again before any action was taken.

Mr. Szymczak's motion was put by the Chair and carried unanimously with the understanding that the Secretary would inform Mr. Eccles of the action and if he agreed the procedure contemplated by the action would be carried out.

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Secretary's Note: Following the meeting Mr. Carpenter reported the action of the Board to Mr. Eccles who stated that he approved the action. Mr. Vest talked with Mr. Townsend who approved the proposed reply to Mr. Giannini in the form set forth below (which incorporated a very minor change, suggested by Mr. Townsend, in the draft of reply as presented at this meeting). Mr. Townsend agreed with Mr. Vest that the matter should not be taken up with the Department of Justice at this time with the understanding that at some future time when Mr. Townsend is having lunch with Mr. Baldrige, as he does from time to time, he would tell Mr. Baldrige about the letter from Mr. Giannini and the Board's reply. Upon receipt of this information from Mr. Vest the reply was signed by Chairman McCabe and mailed by the Secretary's office under date of August 5, 1948:

"This will acknowledge receipt of your letter of July 23, 1948, with regard to the complaint and notice transmitted with the Board's letter of June 24, 1948, to Transamerica Corporation. Your letter has had the Board's careful attention and we appreciate your having given us the benefit of your views in this matter.

"The question of jurisdiction of the Board in this matter was, of course, very carefully considered prior to the issuance of the complaint above referred to, and the Board is satisfied that the Clayton Act has vested in the Board authority to bring a proceeding of the kind in question, not only where all of the institutions involved are banks but also where the facts are such as they appear to be in this instance. The procedure to be followed in connection with such a proceeding is, as you know, provided in the statute. In view of these circumstances, the Board does not believe that the matter presents any question which should be referred to the Attorney General for an opinion as you suggest."

Reference was then made to a memorandum from Mr. Vest dated August 2, 1948, transmitting a request from Mr. Edwards, Director

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of the Bureau of Industrial Economics of the Federal Trade Commission, that he be furnished a copy of the Board's complaint against Transamerica Corporation for his information and use in connection with his duties as Chief Economist of the Commission. Mr. Vest stated that he received a telephone call from Mr. Edwards asking for a copy of the complaint, that he endeavored to avoid giving him a copy, but that Mr. Edwards felt strongly he should have it and that he (Mr. Vest) could see no particular harm in giving him a copy for his confidential use, especially since it was desirable to maintain good working relations with the Federal Trade Commission. He added that the complaint had been discussed freely by Mr. Townsend with attorneys of the Federal Trade Commission at various times before it was issued.

Mr. Clayton said that he was not inclined to comply with Mr. Edward's request since no formal request had been received from the Federal Trade Commission or from any of its attorneys..

Mr. Vest suggested that he be authorized to inform Mr. Edwards that if the Board received a formal request from the Federal Trade Commission for a copy of the complaint the Board would be glad to furnish a copy to the Commission for its confidential use.

Mr. Vest's suggestion was approved unanimously.

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Mr. Smead entered the meeting at this point.

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of July 13 requesting the Board's approval of final plans and outline specifications for the proposed building to house the Seattle Branch.

"It is understood that the architect estimates that the cost of the building will be approximately \$2,202,200, exclusive of the vault, the cost of which is not expected to exceed \$450,000.

"In view of the considerations outlined in your letter the Board will interpose no objection to the procuring of firm bids for the construction of a building on the basis of proposed plans and specifications, with the understanding that the bids will be submitted to the Board for approval before a contract for the construction of the building is entered into by your Bank."

Mr. Vardaman raised the question whether, in the light of inflationary pressures in the building industry, the Board should now authorize the San Francisco Bank to obtain construction bids at this time.

There was a discussion of the question, during which Mr. Smead said that, in obtaining authority from Congress last year to approve expenditures of not more than \$10 million in construction of Federal Reserve branch buildings, the Board stated that the Seattle and Portland Branches of the Federal Reserve Bank of San Francisco presented urgent emergency situations, that it was

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indicated that construction of new quarters to house these branches should proceed as rapidly as possible, that there had been informal indications to the Board of Directors of the San Francisco Bank that immediate construction of the buildings would be approved when final plans were completed, and that he felt it desirable to authorize the Bank to proceed with construction as rapidly as possible.

Upon motion by Mr. Vardaman the letter was approved unanimously.

Mr. Clayton referred to a memorandum dated July 30, 1948, prepared in the Legal Division, recommending approval, effective September 1, 1948, of an amendment to Regulation H to eliminate standard condition of membership numbered three and the three standard trust conditions of membership and to add a paragraph to footnote numbered six concerning the effect of the elimination of these conditions. He said that in its letter of June 11, 1948, to the Presidents of the Federal Reserve Banks, the Board stated that it was prepared to amend the regulation along the foregoing lines on some future date which would permit the issuance of the amended regulation to be synchronized with the cancellation of certain conditions of membership now applicable to State member banks. He added that the proposed amendment had been worked out in conjunction with the Federal Reserve Banks, that it had been approved unanimously by the Presidents of the Reserve Banks at their Conference on May 20, 1948,

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and that the preliminary work necessary to make the amendment effective September 1, 1948, had now been completed.

Thereupon, Mr. Vardaman moved that the following amendment to Regulation H be adopted:

"Regulation H is amended effective September 1, 1948, by striking out paragraph numbered 3 (condition of membership numbered 3) of section 6(a), the catch line of section 6(a), all of section 6(b), and footnotes numbered 10, 11, 12, 13, and 14; by renumbering the succeeding footnotes accordingly; and by adding to footnote numbered 6 appended to paragraph numbered 1 (condition of membership numbered 1) of section 6(a) a new paragraph reading as follows:

'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.'"

Mr. Vardaman's motion was put by the Chair and carried unanimously.

In taking this action, unanimous approval also was given to the following statement for publication in the Federal Register:

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"The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found as stated in section 2(e) of the Board's Rules of Procedure, and especially because in connection with this amendment which relieves certain restrictions such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

The meeting then recessed and reconvened at 3 p.m. with the same attendance as at the close of the morning session except that Mr. Thomas, Director of the Division of Research and Statistics, was also present.

Mr. Vest stated that, as reported at the meeting of August 2, he had prepared a draft of bill which would bring nonmember banks within the scope of proposed legislation giving the Board increased authority over reserve requirements, that he had given a copy of the bill to Mr. McKenna, an attorney for the Senate Banking and Currency Committee, for his assistance in preparing legislation for that Committee, and that he had also informed Mr. McKenna by telephone this noon that the Board might wish to make some changes in the draft. Mr. Vest went on to say that the draft as submitted to Mr. McKenna provided that changes in reserve requirements under the proposed legislation should be uniform for all classes of banks, but that a question had been raised whether the legislation should authorize the Board to increase requirements of banks in central reserve

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cities, or reserve cities, or non-reserve cities, or banks wherever located.

During a discussion of the question raised by Mr. Vest, Messrs. McCabe, Szymczak, Evans, and Clayton favored a flexible provision in the law and Messrs. Draper and Vardaman favored the retention of the provision as submitted to Mr. McKenna. Mr. Clayton stated that he had mentioned the point to Mr. Eccles who was testifying before the House Banking and Currency Committee this afternoon, and that the latter felt the proposed legislation should provide the same flexibility that was now provided in the law for changes in reserve requirements of member banks.

Following a discussion of questions raised during a review of the provisions of the proposed bill, Mr. Vest was authorized unanimously to revise the draft of bill so that it would provide that authority to increase reserve requirements could be exercised by the Board covering member and nonmember banks with the same degree of flexibility that now applies to member banks. In taking this action it was understood that the revised draft would provide (1) that when a bank was located in the outlying districts of a central reserve city or reserve city it could, upon obtaining permission from the Board to do so, comply, when it so desired, with reserve requirements applicable to banks in reserve cities or to banks not in central reserve cities or reserve cities, instead of with the requirements which would be otherwise applicable to it, and (2) that the calculation of reserve requirements on demand deposits would be based on gross demand deposits.

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It was also understood that when the bill had been changed in accordance with this discussion Mr. Vest would submit a copy informally to Mr. McKenna for his assistance in connection with his work as an attorney for the Senate Banking and Currency Committee.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 2, 1948, were approved unanimously.

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

"In 1939 a procedure was inaugurated under which it was contemplated that the Federal Reserve Banks of New York and Chicago would submit in March of each year the salaries of the officers as formally fixed by their directors for the year beginning April 1; the Federal Reserve Banks of Boston, Philadelphia, Cleveland, and San Francisco would submit in April salaries of officers for the year beginning May 1; and the remaining Banks would submit in May salaries of officers for the year beginning June 1. As you know, it was also contemplated that prior to formal action by the Reserve Bank directors on officers' salaries, the subject would be discussed informally by the directors, and by the Chairman with the Board of Governors for the purpose of ascertaining its views. It is believed that this procedure is mutually desirable and that it should be continued.

"On occasion the Board has been handicapped by a lack of sufficient time and adequate information for the proper consideration of officers' salaries, and in some instances proposed adjustments in salaries

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"have been submitted informally to the Board of Governors before they have been considered by the directors of the Reserve Bank. It would be of great assistance to the Board in reviewing officers' salaries in the future if your directors would give consideration to this matter in sufficient time to permit informal consideration by them and by the Board of Governors of the proposals contemplated well in advance of the time when it would be necessary for your board to take formal action.

"To assist the Board of Governors in the review of officers' salaries, it is requested that the following information be furnished at the time the proposals are submitted for consideration:

1. A list of all officers as of March 1, April 1, or May 1, (depending on whether their salaries become effective April 1, May 1, or June 1) showing in the case of each officer (a) name; (b) title; (c) departments supervised; (d) present annual salary; and (e) annual salary for the year beginning on the first of the following month as proposed by your board of directors subject to the approval of the Board of Governors.
2. In the case of each officer for whom an increase in salary is proposed, a statement of changes in his duties and responsibilities since his last increase in salary and of any other factors that have a material bearing on the proposed increase.
3. A copy of the current organization chart of the Reserve Bank including Branches, if any.

"Since the Board's approval of salary for a given officer is contingent upon his occupying a specific position, it is requested that whenever an officer is assigned to another position (change in title) his salary be fixed by the board of directors for the new position subject to the approval of the Board of Governors. The Board would also appreciate receiving current advice of any major changes in the duties of an officer which do not involve a change in either title or salary.

"This letter supersedes and cancels the Board's letter of September 6, 1941, (S-312, F.R.L.S. #9090.1)."

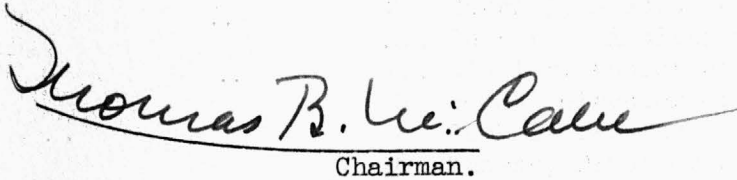
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Approved unanimously.


Secretary.

Approved:


Chairman.