

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 19, 1948. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.
Mr. Szymczak
Mr. Draper
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director of the Division
of Examinations
Mr. Baumann, Assistant General Counsel

Mr. Szymczak stated that this morning he received a telephone call from the Secretary of the Treasury, who referred to the article in the Washington Times-Herald for today (an earlier article on the same subject appeared in the same paper yesterday) to the effect that an official spokesman of the Board had reiterated that the Treasury's action in authorizing the establishment by Bank of America National Trust and Savings Association of additional branches was a direct violation of a definite understanding it had with the Board of Governors to hold up further Bank of America applications pending disposition of the Clayton Act complaint filed by the Board in June. Secretary Snyder also said, Mr. Szymczak stated, that the Treasury felt there had been compliance with the existing understanding between the Board and the Comptroller of the Currency, that if there was any failure to comply with the

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understanding it was on the part of the Board in granting authority to the Bank of America to establish foreign branches and that, therefore, he felt the Board should issue a statement denying what appeared in the press as coming from an official spokesman of the Board, and that if the Board did not issue a statement he felt that he would be compelled to do so saying that the Treasury felt it had complied with any existing understanding with the Board of Governors.

Mr. Szymczak also said that before the meeting he had discussed the matter with members of the staff and by telephone with Chairman McCabe, who was on vacation, and that Chairman McCabe felt that if representatives of the Board could sit down with the Treasury and the Comptroller of the Currency for the purpose of ascertaining all the facts it would be possible to ascertain the present understanding of the Treasury and the Comptroller of the Currency with respect to (1) the agreement reached in February 1942 as set forth in the letter to Transamerica Corporation under date of February 14, 1942, which was initialed by Comptroller of the Currency Delano and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, and (2) the understanding which grew out of the Board's letters of November 7, 1947, and November 24, 1947, and the Comptroller's reply of November 10, 1947. It was Mr. Szymczak's view that, if a decision is made to send a letter to the Comptroller of the Currency, it should not be sent before a

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conference with the Comptroller but might be handed to him at the time of such a conference.

In this connection, reference was made to a transcript which had been obtained of Secretary Snyder's press interview yesterday, at which Mr. Delano was also present, during which the latter made the following statement:

"I would like to give that gentleman one differentiation which he needs. You mentioned giving branches to the Bank of America. I want to say this, that the operation that you speak of, or that this gentleman says he has dug out from the Fed which is an operation which doesn't concern giving new branches to the Bank of America, which is illustrated by the fact that the Fed itself has given some branches, itself, to the Bank of America. In other words, there is a distinction between the Trans-America owned bank -- this is very technical -- but there is a distinction between that and between those that are granted directly to the Bank of America and in places where the enormous growth of California has given them definite facilities, and I think we should state that the number we have given is not out of balance to other branches given to the other banks in the State of California, or in the United States."

Mr. Thurston stated that Mr. Delano had called him on the telephone to say that he hoped no press statement by the Board or the Treasury would be necessary, and that he hoped the Board understood the distinction that he had made between granting authority to Bank of America for the establishment of de novo branches and granting to Transamerica Corporation authority to convert existing banks into branches, and that his office had been adhering implicitly to the understanding growing out of the November correspondence with respect to granting authority of the latter sort to Transamerica.

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Mr. Eccles reviewed the consideration that had been given to this matter since the period prior to 1942 and the circumstances under which the letter of February 14, 1942, was sent to Transamerica Corporation with the initialed approval of Messrs. Delano and Crowley. He also referred to discussions with representatives of the Comptroller of the Currency, the Treasury, and the Department of Justice since that time with respect to efforts of the Federal bank supervisory agencies to limit further expansion by the Transamerica group.

During the discussion, Mr. Szymczak was called from the room to answer the telephone and upon his return stated that he had had a further call from the Secretary of the Treasury on the matter and that the latter had stated that so far as he knew there was no understanding between him and the Board with respect to the authorization for domestic branches in the Transamerica group. Mr. Szymczak said that he responded that the understanding was between the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board, to which the Secretary replied that that did not explain how, in the face of such an understanding, the Board could authorize the establishment of foreign branches by Bank of America, that the making of unauthorized statements to the press by someone in the Board's offices apparently was continuing, and that if they were not discontinued the Treasury would have to answer them. Mr. Szymczak also said that he told the

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Secretary that the matter was being discussed at a meeting of the Board and that he would call him as soon as the meeting was over, that in response to the Secretary's inquiry as to why the Board kept talking to the press about the matter, he stated that the Board had not given anything to the press, whereupon the Secretary asked why the Board did not issue a statement to that effect.

Mr. Eccles said that it was unfortunate that the matter ever got into the papers at all, that he did not believe it helped the Board's case, and that it did not serve any useful purpose.

In this connection Mr. Szymczak expressed the opinion that the resulting publicity was injurious to the objectives that the Board was seeking to accomplish and to its relations with the Treasury.

There was a general discussion of the matter in the light of the efforts over the past several years of the Federal bank supervisory agencies to bring about corrective measures in the Transamerica group, during which Mr. Leonard stated that he had just received a note from Mr. Millard, Assistant Director of the Division of Examinations, reading as follows:

"Cy Upham just called me on the phone to say that it formerly was his custom to check with us in regard to applications for branches in order to find out whether we might have a competing application.

"He went on to say that in recent months he perhaps had been somewhat dilatory in following out this policy, but that in any event he now wished to inform us that he had received an application from Bank of America to establish a branch at Del Monte, California."

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Toward the conclusion of the discussion, Mr. Eccles stated that regardless of the technicalities involved or the misunderstandings that might exist with respect to agreements reached in the past, the Board was confronted with a situation which should be dealt with in an objective way, and that, therefore, he would suggest that the Board authorize Mr. Szymczak to say to the Secretary that the Board had decided that it should issue no press statement, that the Board had not authorized any statement and had had no part in anything that might have been attributed by the press to an "official spokesman" and that it regretted the incident, that the Board would hope that the Treasury would not find it necessary to issue a statement so that the matter could be forgotten by the press, and that nothing would be gained by further press statements. Mr. Szymczak should also say, Mr. Eccles stated, that, in view of developments, the Board felt it should state its views to the Comptroller of the Currency with respect to the authorization by the Comptroller of further branches of national banks in the Trans-america group and that it would write a letter on the matter which representatives of the Board would take to the office of the Comptroller for the purpose of discussing the matter with him.

Upon motion by Mr. Vardaman, Mr. Eccles' suggestion was agreed to un-animously, and it was expressly understood that none of the Board members or the staff would discuss any phase of the matter outside of the Board's offices or make any comment with respect to it.

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Mr. Szymczak then left the room to call Secretary of the Treasury Snyder and upon his return stated that the Secretary's office had advised him that he had left for the day. Mr. Szymczak said he then talked to Comptroller Delano, informing him that he was calling, because of the absence of the Secretary, about a matter that the Secretary had called about earlier this morning. Mr. Delano's response, Mr. Szymczak said, was that he had been in the Secretary's office when he called and knew about the situation. Mr. Szymczak said he then informed Mr. Delano of the conclusions of the Board, emphasizing that the Board had not authorized the giving of any information to the press and regretted that the situation had arisen, and stating that apparently there was a misunderstanding of the agreement reached by the Board and the Comptroller of the Currency in 1942. Mr. Szymczak added that the Comptroller replied that he had no misunderstanding on that point, that the 1942 agreement had been abandoned by Secretary of the Treasury Vinson when he took office as he did not agree with the 1942 understanding and had so told Mr. Eccles (Mr. Eccles stated that this was not the case), after which the Comptroller of the Currency began to authorize the establishment of branches by Bank of America. With respect to the understanding growing out of the 1947 correspondence, Mr. Szymczak said the Comptroller stated that that understanding related to the conversion by Transamerica Corporation of existing banks into branches, and that his office had

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complied with that literally. Mr. Szymczak made the further statement that he told the Comptroller that the Board would write a letter to him on the subject and that representatives of the Board would deliver the letter and discuss the matter with him.

There was a further discussion of the form of the proposed letter and it was agreed that a draft would be prepared by the staff and presented for consideration at a meeting of the Board tomorrow morning.

It was also understood that in response to the inquiry received by Mr. Millard from Mr. Upham about a branch at Del Monte, California, Mr. Upham should be informed by telephone that the Board would be opposed to the establishment of the branch.

Secretary's Note: Prior to the meeting Mr. Szymczak had called Mr. Clayton, who was visiting the Federal Reserve Bank of New York, to acquaint him with today's developments. During the meeting Mr. Clayton called Mr. Thurston over the telephone and was kept advised of the discussion. He had also transmitted over the wire a suggested redraft of the draft of proposed letter to the Comptroller of the Currency which he had prepared the day before (in accordance with the action at the meeting on August 17, 1948) prior to leaving for New York and had asked that it be referred to next morning to Messrs. Morrill and Thurston. Following the meeting Mr. Clayton expressed approval of the Board's decision not to make a public statement but to send to the Comptroller of the Currency a letter outlining the Board's position with respect to continued expansion of Bank of America.

Mr. Morrill stated that he had just received a telephone call from Mr. Leach, President of the Federal Reserve Bank of Richmond, in which the latter stated that the estate of the late Senator Carter Glass had turned over to the University of Virginia some 350,000 pieces of the Senator's personal papers, and that Mr. Stettinius, who is Rector of the University as well as a Class C director of

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the Federal Reserve Bank of Richmond, had discussed with the Board of Visitors of the University and the board of directors of the Federal Reserve Bank of Richmond the question of having someone go through the papers for the purpose of ascertaining what they consisted of and what might be done with them. It apparently was Mr. Stettinius' idea, Mr. Morrill said, that the Federal Reserve Bank of Richmond might employ some competent person to go through the material (which would take about six months or more at a cost of \$6,000 or \$7,000) and make recommendations as to what might be done with the papers. Mr. Leach said that the University of Virginia board favored the idea and that the Richmond board of directors were in agreement. Mr. Leach was then given the assignment of carrying out this suggestion, which he was willing to do, and his reason for calling informally about the matter was that if there were any objection from the Board he would like to know.

In a discussion it was suggested that, inasmuch as the bulk of the papers would very likely relate to matters in which the Federal Reserve System would have little, if any, interest, there was some question whether the Federal Reserve Bank of Richmond or the Board could be justified in incurring the expense involved.

Mr. Riefler suggested that the problem was one of classification for a competent librarian and that the question was whether the Federal Reserve Bank or the Board should help the University of Virginia in classifying the papers and paying the cost of that operation.

In that connection Mr. Morrill said that Mr. Leach was of the opinion that the project might be treated as a function of the Research

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Department of the Bank. Mr. Riefler made the further suggestion that an educational foundation might be the appropriate source of funds for such a project. Some of the members of the Board thought that if the assistance of the Federal Reserve Bank of Richmond were confined to the giving of advice in respect to the Federal Reserve portion of the material there could be no objection. It was pointed out in this connection that it might become embarrassing if some Federal Reserve Bank or the Board were asked to do the same thing with respect to the papers of some other well-known personage, such as a deceased President or former Senator Owen of Oklahoma, for example.

At the conclusion of the discussion, it was understood that Mr. Morrill would advise Mr. Leach of the views which had been expressed in the informal discussion of the matter, and particularly the opinion that it would not be appropriate for the Federal Reserve Bank of Richmond to assume the responsibility of employing a person for the proposed project.

At this point Messrs. Riefler, Leonard, and Baumann left the meeting and the action taken with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 18, 1948, were approved unanimously.

Memorandum dated August 17, 1948, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the resignation of Miss Mary E. McDonald, a clerk-stenographer in that Division, be accepted to be effective, in accordance with

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her request, at the close of business August 27, 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 Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of August 13, 1948, the Board approves the appointment of Charles H. Wigo, Jr., as an assistant examiner for the Federal Reserve Bank of Philadelphia. If the appointment is not made effective September 1, 1948, as planned, please advise us."

Approved unanimously.

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

"Congress has enacted, effective September 1, 1948, a new Criminal Code, a copy of which is being sent to Counsel for your bank. It will be noted that most of the criminal provisions of the banking laws contained in the Federal Reserve Act and elsewhere have been repealed but re-enacted in the new Code. For example, the provisions relating to theft, embezzlement or misapplication of bank funds are contained in section 656 of the new Code, and section 5209 of the Revised Statutes which formerly covered these matters is specifically repealed. Moreover, section 656 makes it clear that the theft, embezzlement or misapplication of bank funds in excess of \$100 is a felony and if the amount is \$100 or less the offense is a misdemeanor.

"Accordingly, after September 1, 1948, in determining whether or not to report misdemeanors to the local United States Attorney, your bank should give consideration to the question whether the making of such report would be desirable or undesirable in the public interest or would serve any useful purpose in view of the importance of the case and all of its facts and circumstances. Your bank should then report or not report the matter in the exercise of sound discretion. In every case in which such a report is not made, a complete record of the facts and circumstances of the case

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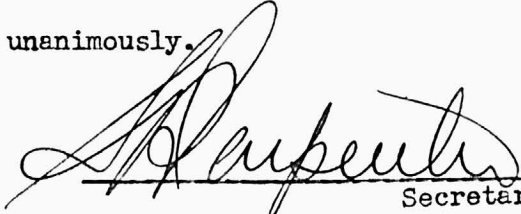
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"should be preserved in the files of the Federal Reserve Bank for review by the Board's examiners.

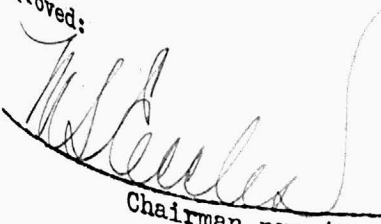
"This procedure applies only to misdemeanors and not to felonies and the Federal Reserve Bank should report to the local United States Attorney every case in which facts come to the bank's attention from which it appears probable, even though it is not entirely clear, that a violation of the banking laws constituting a felony may have occurred. In this connection, it is suggested that Counsel for the Federal Reserve Bank be consulted on doubtful questions which may arise from time to time, both in respect to the question whether a particular case may constitute a felony or a misdemeanor and in regard to other aspects of the matter. In every case in which a report is made to the local United States Attorney, whether of a felony or of a misdemeanor, three copies of the report should be forwarded to the Board in order that the Board may transmit copies to the Attorney General of the United States.

"This letter relates to the manner of reporting apparent violations of the criminal provisions of the Federal banking laws which involve Federal Reserve Banks or State member banks, as well as any other violations of such provisions which should appropriately be reported by the Federal Reserve Banks or the Board of Governors. However, the letter is not to be understood as affecting the reporting of apparent violations which involve national banks, as this is covered by the Board's letter of February 8, 1928 (X-5072; F.R.L.S.#6501), nor the reporting of bank robberies, as this is covered by the Board's letters of September 24, 1934 (X-8017; F.R.L.S.#8310) and March 15, 1935 (X-9147; F.R.L.S.#8311).
"The Board's letter of July 8, 1937 (S-12; F.R.L.S.#6503) is hereby rescinded."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.