

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, September 20, 1948. The Board met in the Special Library at 2:30 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Millard, Director of the Division of Examinations
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Leonard, Associate Director of the Division of Bank Operations

Before this meeting the Federal Advisory Council submitted a memorandum covering topics discussed at a separate meeting of the Council on September 19, 1948, which were to be reviewed with the Board at a joint meeting to be held at 10:30 tomorrow morning. While the topics were being considered Mr. Thomas, Director of the Division of Research and Statistics, entered the meeting. Following a discussion, Chairman McCabe suggested that Messrs. Riefler, Thomas, and Young be asked to prepare a draft of statement on the first five topics in the Council's memorandum and that the draft be considered by the Board at a meeting at 9:30 tomorrow morning prior to presentation at the joint meeting with the Council later in the morning.

Chairman McCabe's suggestion was approved unanimously.

9/20/48

-2-

With respect to the remaining two topics in the memorandum received from the Council it was agreed that Chairman McCabe would state the views of the Board substantially along the lines recorded in the minutes of the joint meeting.

Messrs. Riefler, Thomas, and Young left and Mr. Townsend, Associate General Counsel, joined the meeting at this point.

Mr. Clayton referred to a memorandum which he prepared under date of September 1, 1948 and which was circulated among the members of the Board, reporting a discussion with Mr. Pace, Assistant Director of the Bureau of the Budget, of the position that the Board had taken in opposition to certain provisions of Home Loan Bank legislation before the recent session of Congress and the possibility of including in such legislation a provision with respect to the factors to which the Treasury should give consideration so that, in deciding the question of furnishing funds to the Home Loan Bank System for the purpose of providing additional liquidity in times of emergency, unhealthy expansion during times when there was no emergency would not be encouraged. Mr. Clayton said that Mr. Pace subsequently talked with Mr. Lynch, General Counsel of the Treasury, concerning Mr. Pace's proposal that the Treasury consult with the Board of Governors before making any purchase of obligations of the Home Loan Bank System or advancing funds to the Federal Savings and Loan Insurance Corporation, that Mr. Lynch was not favorable to the suggestion and felt it was a

9/20/48

-3-

radical departure from established procedure and would not be practicable, and that Mr. Lynch suggested that members of the staff of the Treasury Department consult with members of the staff of the Board to find out whether an agreement could be reached as to legislation which might be proposed for the purpose of accomplishing the objectives.

It was Mr. Lynch's thought, Mr. Clayton said, that it would be difficult to write out in a statute the factors that the Treasury would be required to consider, and that instead the law should be amended to require that the Home Loan Bank System achieve a greater degree of liquidity and furnish some kind of financial cushion if the Government is to underwrite the obligations of that System in any way. Mr. Clayton added that it had been agreed with Mr. Lynch that representatives of the Treasury would consider that suggestion with Mr. Wood, Economist, and Mr. Solomon, Assistant General Counsel, of the Board's staff, with the thought that if a conclusion could be reached the matter would be discussed again with Mr. Pace.

Mr. Clayton then referred to the action at the meeting on September 10, 1948, authorizing the Legal Division to defer preparation of a memorandum with respect to the 1942 agreement between the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation relating to the acquisition of additional banking offices by Transamerica Corporation, Bank of America N. T. & S. A., or any

9/20/48

-4-

other unit of the Transamerica group, until a conference could be held with representatives from these agencies and the Department of Justice to review developments in the Transamerica case and to request their cooperation and the results reported to the Board. Mr. Clayton stated that the conference was held in the Special Library of the Board's building on Wednesday, September 15, and, in addition to himself and Messrs. Townsend, Chase, Horbett, Hurley, J. C. Smith, and A. N. Thompson of the Board's staff, was attended by Messrs. Upham (Mr. Delano, Comptroller of the Currency could not be present) and Anderson of the Comptroller's Office, Mr. Irwin D. Wright, Chief National Bank Examiner for the Twelfth Federal Reserve District, Mr. Cook, Director, and Mr. Opegard, Counsel, of the Federal Deposit Insurance Corporation, and Mr. Guy Hill from the Anti-trust Division of the Department of Justice.

Mr. Clayton stated that, after Mr. Townsend reviewed developments in the Transamerica investigation and outlined the Board's case, there was a discussion of the request of the Board that representatives of the Comptroller's Office and Federal Deposit Insurance Corporation cooperate in the presentation of the case by testifying as to certain nonconfidential matters of fact having to do with the growth and extent of Transamerica Corporation and controlled banks and with the kind of business done by them. Mr. Upham said at the meeting that he would inform Comptroller Delano of the request and

9/20/48

-5-

Mr. Clayton stated that this morning he received a telephone call from Mr. Delano who seemed to be undecided whether representatives of his office could testify on the particular matters as requested by Mr. Townsend, i.e., whether they had such knowledge of the facts as would enable them to testify. Mr. Clayton added that Mr. Delano also raised the question as to the use of reports of examination of banks in the Transamerica group in connection with the hearing.

Mr. Townsend stated that that question had been raised by the Comptroller of the Currency before and that he had explained that it was not the intention to put into the record of the hearing on the Transamerica case any material taken from reports of examination but rather facts known to the representatives of the Comptroller's office, including Chief National Bank Examiner Wright who personally knew of situations of a non-confidential character. Mr. Townsend also said that if the question of using examination reports should come up, he did not think the case of *Bank of America v. Douglas, et al.*, to which the Comptroller of the Currency had referred, would be controlling for the reason that, since the Board of Governors does not have the right to subpoena in connection with the forthcoming hearing, it would be presumed that having been given responsibility for enforcement of the Clayton Act the Board could use its power to examine banks for the purpose of developing the necessary information. Mr. Townsend did not anticipate, however, that the

9/20/48

-6-

question of the use of examination reports would arise.

Mr. Clayton stated that while Comptroller Delano's response was indefinite he hoped to discuss the matter with him further at the conference of the National Association of Supervisors of State Banks in Louisville, Kentucky, later this week. Mr. Townsend added that Mr. Wright was entirely agreeable to testifying but that the impression had been given that the matter was one which would require a decision at the top level authority in the Treasury Department.

Mr. Townsend also said that Mr. Opegard stated on the day following the conference that he had discussed the matter with Mr. Cook and other officials of the Federal Deposit Insurance Corporation and that the full cooperation of that Corporation would be forthcoming.

With reference to the memorandum concerning the 1942 agreement relating to the acquisition of additional banking offices by Transamerica Corporation, preparation of which was deferred at the meeting on September 10, Mr. Clayton stated that the most important question at this time was whether the Board could get the active cooperation of the Comptroller's Office in the Transamerica hearing, that the Board's letters to the Comptroller on August 24 and the Comptroller's replies of August 27 and August 30 set out the positions of the two offices with respect to their current interpretation of the agreement, that he felt nothing further would be gained by continuing the correspondence, and that Mr. Townsend felt

9/20/48

-7-

Additional letters might well affect adversely the cooperation of the Comptroller's office. He suggested therefore, that no reply be sent to Comptroller Delano's letters of August 27 and August 30 and that the staff be informed that it would not be necessary to prepare the memorandum requested at the meeting on August 31, 1948.

Mr. Eccles stated that, while he had not seen Mr. Delano's letters of August 27 and August 30, he felt the Board had presented its points with respect to the agreement in its letters of August 24, that the most important thing now was to obtain cooperation of the Comptroller's Office as far as that was possible in the Trans-america case, and that, since it was the judgment of Messrs. Clayton and Townsend that a further response to Mr. Delano's letters might endanger relations with the Comptroller's Office, he felt that no reply should be sent.

Mr. Clayton's suggestion was approved unanimously.

At this point Messrs. Vest, Millard, Leonard, and Townsend 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 September 17, 1948, were approved unanimously.

9/20/48

-8-

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

"In accordance with the request contained in your letter of September 14, 1948, the Board approves the appointment of Robert Lee Day, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Cleveland. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"Reference is made to your letter of September 13, 1948, recommending that consideration be given to cancellation of the condition of membership numbered 17 at the time of acceptance by The Brecksville Bank, Brecksville, Ohio, and renumbered 5 under the Board's program of revision of conditions of membership, effective September 1, 1948.

"The condition in question requires that the bank shall stamp on each stock certificate issued a legend citing the pledge of dividends to trustees for waiving depositors under an agreement dated March 21, 1934. While the claims of waiving depositors have not been liquidated in full, it is understood that the plan of reorganization under which the agreement was executed provided that any dividends would be paid to the trustees for a period of only five years and that the trustees have had no claim on the bank's earnings or dividends since 1939.

"In the circumstances, and in view of your recommendation, the Board of Governors cancels condition numbered 17 as set forth in its letter to the Board of Directors of The Brecksville Bank Company, dated August 28, 1934, and renumbered 5 on September 1, 1948."

Approved unanimously.

9/20/48

-9-

Letter to the Auto Finance Company, 530 University Building,
Denver 2, Colorado, reading as follows:

"This will acknowledge your recent letter requesting that the Kelley Blue Book be designated for the purposes of Regulation W.

"The Kelley Blue Book has now been designated for the purposes of the regulation in Region C but not for Region B, and so it cannot be used for this purpose in the Denver area.

"The Board considered extending the Kelley Blue Book designation to Region B, but felt that this was inadvisable in view of the considerably lower prices quoted in the guide books for this region compared with Region C."

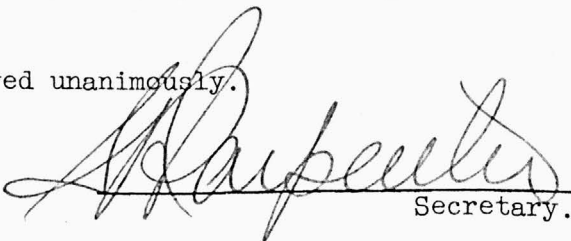
Approved unanimously.

Letter to the Honorable Styles Bridges, Chairman, Committee on Appropriations, United States Senate, Washington 25, D. C., reading as follows:

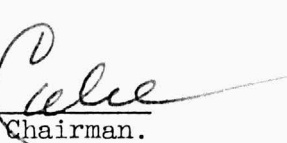
"This refers to your letter of September 7, 1948, requesting that the Senate Appropriations Committee be furnished with copies of all publications of the Board of Governors issued during the fiscal year 1948.

"Since the Board of Governors does not receive appropriations made by the Congress and since the funds, derived from assessments against Federal Reserve Banks, with which its administrative expenses are paid, are expressly declared by Congress not to be 'Government funds or appropriated moneys' (sec. 10, Federal Reserve Act), it is understood from informal discussions with members of your staff that your Committee may not desire the information requested. However, if such information is desired, we will be glad to furnish it promptly."

Approved unanimously.


Secretary.

Approved:


Chairman.