

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 21, 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. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Associate Director of the Division of Bank Operations
Mr. Southard, Associate Director of the Division of Research and Statistics

Chairman McCabe stated that the Personnel Committee had been considering the qualifications of Mr. F. J. Lunding, President of the Jewel Tea Company, Inc., Chicago, Illinois, for appointment as a Class C director of the Federal Reserve Bank of Chicago for the three-year term commencing January 1, 1949, and that he (Mr. Lunding) was visiting the Board's offices this morning with Mr. Young, President of the Chicago Bank.

In the course of a discussion of Mr. Lunding, Chairman McCabe suggested that he be appointed as a Class C director of the

12/21/48

-2-

Chicago Bank for the three-year term beginning January 1, 1949 and designated as Chairman of the Board and Federal Reserve Agent for the year 1949.

There was a discussion of Chairman McCabe's suggestion during which Mr. Clayton stated that he would like to defer action on the suggestion until he had studied the biographical notes regarding Mr. Lunding. It was also suggested that the views of Mr. Eccles, who was in Utah, be obtained by telephone before final action and it was understood that Mr. Carpenter would call Mr. Eccles on the telephone and inform him of the discussion.

Chairman McCabe stated that the Council of Economic Advisers was anxious to make a recommendation with respect to the creation of a council to coordinate domestic policies of Government lending agencies along lines similar to the National Advisory Council. He added that Mr. Young, Associate Director of the Division of Research and Statistics, and Mr. Solomon, Assistant General Counsel, were attending an informal conference of technical personnel at the offices of the Council of Economic Advisers this morning and would report later on their discussions.

Mr. Vardaman stated that he had asked that there be a discussion at this meeting of a suggestion that a study be made of the desirability of returning to the arrangement in effect prior to 1936 when responsibility for the examination of State member banks was in the Federal Reserve Agent's department of the Federal

12/21/48

-3-

Reserve Banks. He stated that, in his opinion, the quality and scope of the bank examination work was now confused, that there were variations in policies from one Federal Reserve district to another, that different concepts of the examination function appeared to exist, and that he felt the staff should begin a study immediately with a view to changing the present arrangement under which the Federal Reserve Banks have been assigned the responsibility by the Board for examination of State member banks subject to general supervision by the Board.

Mr. Clayton stated that he recognized there was some force to the suggestion that there should be uniform policies in the various Federal Reserve districts, but that he felt the return of direct supervision of the examination functions to the Board would be a step backwards from the arrangements made following passage of the Banking Act of 1935 when the Chairman and Federal Reserve Agent of each Federal Reserve Bank was placed on an honorary basis in conjunction with designating the President as chief executive officer of the Bank.

After a discussion of the matter and of the question whether the Board should return to the policy of appointing full-time Chairmen and Federal Reserve Agents at the Federal Reserve Banks Messrs. Vardaman and Clayton were requested to consider the question raised by Mr. Vardaman and to submit a recommendation to the Board.

12/21/48

-4-

Mr. Baumann, Assistant General Counsel, entered the meeting at this point.

Mr. Carpenter read a draft of letter to the American Bankers Association with respect to the Board's position on proposed legislation which would authorize the conversion or consolidation of National banks with State banks without going into voluntary liquidation. The draft had been revised in the light of replies from the Presidents of the Federal Reserve Banks to whom an earlier draft had been sent for comment pursuant to the discussion at the meeting on December 3, 1948.

The draft was discussed and approved unanimously in the following revised form, with the understanding that Mr. Clayton would determine what procedure should be followed in advising the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation of the Board's position on the legislation:

"This refers to our letter of March 18, 1948, and prior correspondence, relating to proposed legislation sponsored by your Association which would authorize national banks to convert into and consolidate with State banks.

"You will recall that when the Board considered the matter previously, it indicated that it had no objection to the enactment of legislation of this nature. The Board took this position because it is sympathetic with the principle of equality in the treatment of the different classes of banks and is inclined to favor the elimination of discrimination in so far as practicable. Subsequently, however, Congress enacted legislation authorizing higher reserve requirements for member banks of the Federal Reserve System,

12/21/48

-5-

"without making such requirements applicable to nonmember banks. This legislation aggravates an existing discrimination against national banks which are required by law to comply with the reserve requirements of the Federal Reserve System, whereas State banks are not subject to these requirements except as they voluntarily elect to become members of the Federal Reserve System; and this legislation is a new factor which must be given serious consideration in connection with your Association's proposal.

"The discrimination with respect to reserve requirements in the light of the recent Congressional enactment on the subject, in the Board's opinion, has much greater significance than the disadvantages attending the present procedures for denationalization. It is a direct discrimination against national banks which offers a substantial inducement for them to convert into nonmember State banks. Such inequality in reserve requirements already is a deterrent to operations under national charters and membership in the Federal Reserve System, and the Board does not believe that the situation should be aggravated by legislation facilitating denationalization.

"Accordingly, upon reconsideration of the proposed legislation, the Board feels that its enactment is not now in the best interests of banking or of the public and that the Board should indicate its opposition when the proposal is again considered by Congress. We are writing to you because, in view of our previous correspondence, we feel that it is desirable to advise you of our present viewpoint in the matter before proposed legislation of this kind is reintroduced in Congress."

At this time Mr. Erickson, President of the Federal Reserve Bank of Boston, Mr. Young, President of the Federal Reserve Bank of Chicago, and Mr. Lunding, President of the Jewel Tea Company, Inc., Chicago, entered the meeting.

Mr. Southard gave a report on the international situation, discussing particularly economic developments in Japan and operations under the Economic Cooperation Administration.

12/21/48

-6-

Following Mr. Southard's remarks, Messrs. Erickson, Young, Lunding, Smead, Leonard, Hammond, Southard, and Baumann left the meeting.

Mr. Carpenter stated that, pursuant to the understanding earlier in this meeting, he talked with Mr. Eccles by telephone concerning the proposed appointment of Mr. Lunding as a Class C director of the Federal Reserve Bank of Chicago and his designation as Chairman and Federal Reserve Agent for the year 1949, and that Mr. Eccles stated that his preference would be for the appointment of Mr. W. W. Waymack, formerly a director of the Chicago Bank and recently resigned as Chairman of the Atomic Energy Commission, and that he would suggest that the Board defer action on Mr. Lunding's appointment as Chairman and Federal Reserve Agent until it could determine more fully, by reference to speeches and other sources, whether he was strong enough and had an attitude toward public service and the public interest which would enable him to fill effectively that important position in the second largest Federal Reserve Bank. If it should be the decision of the Board, Mr. Carpenter said, to appoint Mr. Lunding as Chairman, he (Mr. Eccles) would request that he be recorded as "not voting".

There was a further discussion of Messrs. Waymack and Lunding as possible appointees during the course of which question was raised as to whether the latter could qualify for appointment as Chairman and Federal Reserve Agent in view of the

12/21/48

-7-

statutory requirement that Chairmen and Federal Reserve Agents be men of "tested banking experience". There was some question whether Mr. Waymack would be available or should be called upon to serve so soon after his service as a member of the Atomic Energy Commission.

Question was also raised as to whether Mr. Paul G. Hoffman, presently Deputy Chairman of the Federal Reserve Bank of Chicago, should be reappointed in view of the fact that he was serving as Administrator for the Economic Cooperation Administration and, if reappointed to that post, would not be able to perform the function of Deputy Chairman at the Chicago Bank during the coming year. In this connection, it was suggested that Mr. Lunding might be designated as Deputy Chairman and that Mr. Hoffman be informed of the arrangement and the reasons why he was not being reappointed as Deputy Chairman.

Following a discussion (during which Mr. Young, President of the Federal Reserve Bank of Chicago was called back into the meeting to answer certain questions after which he withdrew) of the foregoing suggestion, it was agreed unanimously (1) that Chairman McCabe should advise Mr. Hoffman that, because of his inability to serve as Deputy Chairman while serving as Administrator for the Economic Cooperation Administration, the Board was considering the appointment of another director as Deputy Chairman for the year 1949, (2) to tender to Mr. Lunding appointment as Class C director for the three-year term beginning January 1, 1949, and (3) to appoint Mr. Lunding as Deputy Chairman in the event he would accept as Class C director and Mr. Hoffman's response to the termination of his service as Deputy Chairman was satisfactory.

12/21/48

-8-

Secretary's Note: At the meeting on December 23, 1948, Chairman McCabe stated that he talked with Mr. Hoffman, that Mr. Hoffman understood the reason for the arrangement, that he was perfectly willing to step aside as Deputy Chairman, and that he would continue to serve as a Class C director. Accordingly, a wire tendering the appointment to Mr. Lunding was sent under date of December 23, 1948.

Mr. Young, Associate Director of the Division of Research and Statistics, and Mr. Solomon, Assistant General Counsel entered the meeting at this time.

Chairman McCabe called upon Mr. Young to report on the discussion at the staff meeting at the Offices of the Council of Economic Advisers this morning of the proposal with respect to the creation of an advisory group to coordinate domestic policies of Government lending agencies.

Mr. Young stated that the consensus of the group of technicians was that the end sought might better be accomplished by means of an executive order issued by the President rather than by legislation and that in the course of the discussion at the meeting he and Mr. Solomon were asked whether they would prepare a draft of such an order for discussion at another meeting to be held on Tuesday, December 28, 1948.

The meeting then recessed and reconvened at 2:35 p.m. with the same attendance as at the close of the morning session.

12/21/48

-9-

There was a further reference to the request that Messrs. Young and Solomon prepare a draft of an executive order establishing an advisory group to coordinate domestic policies and actions of Federal lending agencies and the matter was discussed in the light of the action taken by the Board on December 15, 1947 in connection with a suggestion at that time that a similar group be established.

Mr. Vardaman stated that, for reasons which he outlined, he would not favor the establishment of such a council either by executive order or by legislation and that he questioned whether the Board's staff should prepare anything for consideration at another meeting of the staff group which had met this morning.

The point raised by Mr. Vardaman was discussed during the course of which the suggestion was made that, rather than prepare a draft of an executive order, Messrs. Young and Solomon might prepare a draft of a letter which would outline an informal means for coordinating policies and actions of Government lending agencies on a voluntary basis and which would not contemplate the passage of legislation.

Mr. Vardaman stated that he would have no objection to such a procedure.

Following a further discussion, the above suggestion was approved unanimously.

12/21/48

-10-

Mr. Clayton stated that yesterday Mr. Clark of the Council of Economic Advisers called to ask why the Board had not amended Regulation W to cover repair and modernization loans. Mr. Clayton said he responded that the matter was under study by the Board, that the Federal Housing Administration had a down payment requirement of 10 per cent on insured loans and felt that any requirement under Regulation W should be in substantially a like amount, but that the Board was inclined to the view that if such loans were covered by the Regulation the down payment required might be as high as 20 per cent. He added that this explanation satisfied the question that Mr. Clark seemed to have.

Mr. Young then stated that at the close of the meeting of the staff group at the Office of the Council of Economic Advisers this morning, Mr. Gross, Executive Assistant to the Chairman of the Council of Economic Advisers, stated that on Friday morning, December 24, 1948, there would be another meeting of the group to consider certain aspects of the President's economic program, and particularly problems of legislation relating to the program, and had asked whether, in advance of that meeting, the Board could make available drafts of legislation covering any proposals it might wish to make for additional powers including authority to increase reserve requirements and to regulate consumer credit. Mr. Young stated that he made no commitment to Mr. Gross with respect to furnishing material for the meeting.

12/21/48

-11-

The matter was discussed briefly and it was understood that the Board would meet tomorrow morning at 10:30 a.m. to consider the question further.

At this point Messrs. Riefler, Thomas, Vest, Young, and Solomon withdrew and the action stated 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 December 20, 1948, were approved unanimously.

Memorandum dated December 20, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Morris A. Copeland, a Special Consultant in that Division, be accepted to be effective, in accordance with his request, at the close of business December 31, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to his credit as of that date.

Approved unanimously.

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

12/21/48

-12-

"Mr. George Exoo of your staff returned to Cleveland last week after spending five weeks working with the Board's staff on Regulation W matters. During that period Mr. Exoo was most cooperative and of great assistance and the Board wishes to record its appreciation of his help.

"The Board also wishes to express its appreciation of your cooperation in making Mr. Exoo's services available to the Board."

Approved unanimously.

Letter to Mr. Avery, Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in Mr. Meyer's letter of December 17, 1948, the Board of Governors approves the payment of salary to Mr. Everett Jones, Federal Reserve Agent's Representative, Detroit Branch, at the rate of \$4,900 per annum.

"Please advise the effective date of Mr. Jones' increase."

Approved unanimously.

Letter to Mr. Shepard, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"In accordance with the request contained in Mr. Powell's letter of December 17, 1948, the Board of Governors approves, effective December 16, 1948, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

| <u>Name</u> | <u>Helena Branch Title</u> | <u>Annual Salary</u> |
|---------------|---|--------------------------|
| Powell, L. W. | Federal Reserve Agent's Representative | \$4,000 |
| Surman, Steve | Federal Reserve Agent's Representative | 4,200" |

Approved unanimously.

12/21/48

-13-

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

"Reference is made to your letter of December 13, 1948, requesting the assent of the Board of Governors, insofar as State member banks are concerned, to your proposal to audit the Certified Statements submitted for assessment purposes by each insured bank in the State of Tennessee with deposits of over \$10,000,000, and, perhaps, some of the smaller banks.

"The Board assents to this proposal and, in accordance with your suggestion, is forwarding copies of your letter and this reply to the Federal Reserve Banks of Atlanta and St. Louis.

"There are now ten State member banks in Tennessee, seven of which are located in the Atlanta Federal Reserve District and three in the St. Louis District. Only one of these member banks, located in the Atlanta District, has deposits in excess of \$10,000,000. Both of the Reserve Banks were notified, however, as you state that you may find it desirable to audit the statements submitted by some of the smaller banks.

"It is assumed that you continue to regard the program for auditing Certified Statements as being in the experimental stage and that you will discuss the matter in detail with the Board's representatives if you should conclude that it would be desirable to extend the program to insured banks generally.

"If the proposed audits in Tennessee should disclose any cases of improper reporting by a member bank which you consider to be of a serious nature, it will be appreciated if the situation be brought to the attention of the Federal Reserve Bank of the District."

Approved unanimously, together with letters to Messrs. McLarin and Davis, Presidents of the Federal Reserve Banks of Atlanta and St. Louis, respectively, reading as follows:

Letter to Mr. McLarin

1948, "Enclosed is a copy of a letter dated December 13, received from Chairman Harl of the FDIC and a

12/21/48

-14-

"copy of the Board's reply. Mr. Harl's letter refers to arrangements made some time ago under which audits were made of the Certified Statements filed by the larger insured banks in several States. He now wishes to audit such statements filed by insured banks in the State of Tennessee having deposits of over \$10,000,000 and, perhaps, some of the smaller banks.

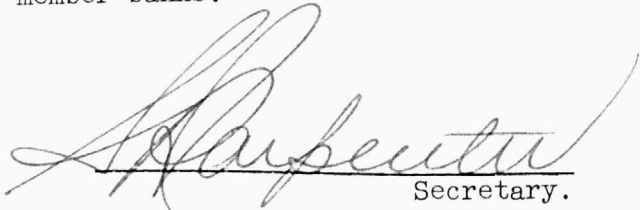
"The terms under which the audits are made provide that (1) such audits be performed by representatives of the Audit Division of the Corporation, (2) each bank to be audited be notified from two weeks to one month in advance by letter, and (3) auditors be instructed not to proceed with the work if they find that Federal Reserve or State bank examiners are in the bank when they arrive.

"You will note that the Corporation is requested to advise the Reserve Bank of any cases, of a serious nature, of improper reporting by State member banks."

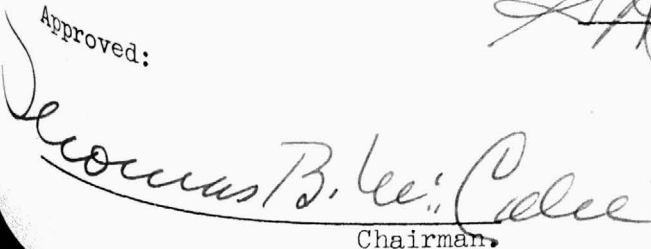
Letter to Mr. Davis

"The Board has received a letter from Chairman Harl of the FDIC dated December 13, 1948, a copy of which is enclosed, stating that the Corporation wishes to audit the Certified Statements filed by each insured bank in the State of Tennessee with deposits of over \$10,000,000 and may find it desirable to audit some smaller banks. A copy of the Board's reply to Mr. Harl is also enclosed.

"None of the State member banks in Tennessee and located within the Eighth Federal Reserve District have deposits of \$10,000,000 but the Corporation may wish to audit the statements of one or more of the smaller banks. You will note that the audits are to be made under the terms stated in Mr. Harl's previous letter and that the Corporation is requested to advise the Reserve Bank of any serious cases disclosed of improper reporting by State member banks."


Secretary.

Approved:


Chairman.