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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 24, 1949. The Board met in the Board Room at 10:30 a.m.

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

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
Mr. Leonard, Director of the Division of Bank Operations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Millard, Director of the Division of Examinations
Mr. Townsend, Solicitor

At Chairman McCabe's request, Mr. Townsend discussed a revised draft of the bank holding company bill which had been prepared in the light of discussions by the Chairman and Messrs. Clayton, Vest, and Townsend held during recent months with representatives of the American Bankers Association, the Association of Reserve City Bankers, independent bankers associations, the National Association of Supervisors of State Banks, bank holding company representatives, and others. Mr. Townsend outlined the changes made from the bills introduced in the 80th Congress, S. 829 and H.R. 3351, stating that the bill had been taken substantially in

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the form in which it was previously considered and such changes had been made as appeared reasonable in the light of the fundamental purposes of the legislation. He said that the first of these changes was the elimination of the declaration of policy formerly contained in section 2 and he recommended this change since the declaration was not important to the bill. With respect to the definition of holding companies formerly contained in section 3, paragraph (a) of the bill, there was a discussion of the question whether a bank operating one or more branches should be considered by definition to be a holding company. It was the consensus of the discussion that the definition should be changed to provide that if a company exercised a controlling influence over the management or policies of two or more banks or of only one bank if such bank operated four or more branches it should automatically be included within the definition of a holding company.

There was also a discussion of the provision contained in the section relating to the acquisition of bank shares or bank assets (formerly section 6(d)), referring to the "national policy against restraint of trade and undue concentration of economic power and in favor of the maintenance of competition in the field of banking". Mr. Townsend stated that this language had been objected to by various organizations and he suggested that it be changed to provide that, in determining whether to approve any

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acquisition subject to the section, consideration should be given to "whether or not the effect of such acquisition may be to expand the size and extent of a bank holding company system beyond limits consistent with adequate and sound banking and the public interest". He stated that he felt this language would give the Board the same authority as the previous language but that it would be highly desirable to have the legislative history of the bill show that the change from the provisions which had been in preceding bills on bank holding company legislation was not intended to change the meaning as contained in the previous bill. It was the consensus that the change should be made with the understanding that an effort would be made to have the legislative history show that no change in authority was intended by the change in language.

Following a discussion of other changes in the language, upon motion by Mr. Clayton, the draft of bill was approved unanimously for transmission to the Treasury Department, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation asking for their comments.

During the foregoing discussion Mr. Carpenter withdrew from the meeting.

Mr. Eccles withdrew from the meeting at this time.

Reference was made to drafts of letters to the Federal Reserve Banks of Boston, Cleveland, and Minneapolis with respect to

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their 1949 budgets, as discussed at the meeting on December 6, 1948. The letters would (1) raise no further question regarding the photographing of country checks by the three Banks for the remainder of this year and stated that, since the practice if adopted by all Federal Reserve Banks would cost the System more than \$1,000,000 a year, the Board felt the matter should be discussed at a Presidents' Conference later this year, (2) ask that Boston review its procedure for double listing outgoing country checks to see whether it might now be advantageous to eliminate that operation, (3) approve \$5,000 in the budget of the Cleveland Bank for a bank-made movie and a cash outlay by Minneapolis of not to exceed ten thousand dollars for a revision in the Bank's motion picture "Behind Banks and Business", and (4) state that the Board would raise no objection to the Minneapolis Bank proceeding with plans for its annual Federal Reserve Conference but that before any plans were made for a Conference in 1950 the Board wished to discuss the matter with Messrs. Shepard and Peyton, Chairman and President, respectively, of the Minneapolis Bank.

Following a discussion, the draft of letter to the Federal Reserve Bank of Boston was approved unanimously as follows:

"Reference is made to your reply, dated January 19, 1949, to the Board's letter of December 27 requesting additional information regarding the 1949 budget of the Federal Reserve Bank of Boston for the Check Collection

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"function. The material which you submitted has been helpful in considering the questions which have been raised.

"With regard to the practice of photographing country checks, it is noted from the information which you submitted, as well as that received from the other two Reserve Banks following a similar procedure, that much emphasis is placed on the resulting improvement in the service rendered member banks. In the circumstances, the Board will not further question the continuation for the remainder of the year of the photographing of country checks by your Bank and the other two Federal Reserve Banks.

"However, since it would appear that if the practice were extended to all Reserve Banks, the annual cost to the System would be perhaps more than \$1,000,000, the Board feels that this matter should be discussed at some meeting of the Conference of Presidents later in the year, at which time the situation could be reviewed in the light of the conclusions and experiences of those banks which do photograph checks and those which do not. The Board is advising Mr. Davis, Chairman of the Presidents' Conference, to this effect.

"With reference to that part of your letter relating to the practice in effect in your Check Department of double-listing all outgoing country checks, it is noted that you refer to a letter addressed to the Board by Vice President Hult under date of September 6, 1945, and have summarized the advantages of this procedure as set forth in that letter. In view of the fact that the comparisons then made by Mr. Hult were mainly with punch card procedure and that generally speaking there has been an improvement in the selectivity of personnel since the war, the Board would be interested in learning whether you feel that in the ensuing three years the efficiency of employees performing this type of work in your Check Department has improved to a point where it might be advantageous for your Bank to give consideration to the elimination of the double-listing operation. Accordingly, it is suggested that your method of handling country checks be reviewed before submission of your budget for 1950, and your further advice in this connection will be appreciated. It would be helpful if this advice included data with respect to the additional equipment which your letter indicates would be required if double-listing were discontinued."

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With respect to the proposed letters to the Cleveland and Minneapolis Banks, Mr. Vardaman expressed the feeling that if funds were to be spent on making moving pictures they should be for a System project and that there was a question whether any expenditure of money for the purposes proposed was desirable. He also raised the question whether, if some expenditure was to be approved, the Board should revise the amount requested by the Banks or whether it should permit them to proceed on the basis which they outlined.

During the discussion of the moving picture project, Chairman McCabe suggested that it would be desirable to talk with Messrs. Gidney and Peyton, Presidents of the two Banks, respectively, while they were in Washington for the Presidents' Conference during the next few days with a view to asking them whether they would collaborate or work together to develop a picture which covered the operations of the Banks and which might afford a basis for development later on of a movie sponsored by the System as a whole.

It was agreed unanimously that Chairman McCabe and Mr. Vardaman would talk with Messrs. Gidney and Peyton concerning the movie project while they were in Washington attending the Presidents' Conference.

Reference was then made to the plans of the Minneapolis Bank for its 1949 Annual Federal Reserve Conference. Mr. Vardaman stated that, inasmuch as the Conference was to be held this spring

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and since plans had already been laid for it, it did not appear practicable to request the Bank to make any change in the program. He stated, however, that he felt the Board should ask the Bank not to make plans for a Conference in 1950 until the matter had been discussed with the Board by Messrs. Peyton and Shepard.

Following the discussion, unanimous approval was given to a letter to the Federal Reserve Bank of Cleveland as follows:

"Reference is made to your reply, dated January 18, 1949, to the Board's letter of December 27, 1948, requesting additional information regarding the 1949 budget of the Federal Reserve Bank of Cleveland for the Check Collection and Bank and Public Relations functions. The material which you submitted has been helpful in considering the questions which have been raised.

"With regard to the practice of photographing country checks, it is noted from the information which you submitted, as well as that received from the other two Reserve Banks following a similar procedure, that much emphasis is placed on the resulting improvement in the service rendered member banks. In the circumstances, the Board will not further question the continuation for the remainder of the year of the photographing of country checks by your Bank and the other two Federal Reserve Banks.

"However, since it would appear that if the practice were extended to all Reserve Banks, the annual cost to the System would be perhaps more than \$1,000,000, the Board feels that this matter should be discussed at some meeting of the Conference of Presidents later in the year, at which time the situation could be reviewed in the light of the conclusions and experiences of those banks which do photograph checks and those which do not. The Board is advising Mr. Davis, Chairman of the Presidents' Conference, to this effect.

"No further comment is made at this time about the provision in the budget for the motion picture project, as Chairman McCabe and Governor Vardaman hope to talk

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"with you about this matter while you are in Washington for the Presidents' Conference."

Unanimous approval also was given to the following letter to the Federal Reserve Bank of Minneapolis:

"Reference is made to your reply, dated January 12, 1949, to the Board's letter of December 27, 1948, requesting additional information regarding the 1949 budget of the Federal Reserve Bank of Minneapolis for the Check Collection and Bank and Public Relations functions. The material which you submitted has been helpful in considering the questions which have been raised.

"With regard to the practice of photographing country checks, it is noted from the information which you submitted, as well as that received from the other two Reserve Banks following a similar procedure, that much emphasis is placed on the resulting improvement in the service rendered member banks. In the circumstances, the Board will not further question the continuation for the remainder of the year of the photographing of country checks by your Bank and the other two Federal Reserve Banks.

"However, since it would appear that if the practice were extended to all Reserve Banks, the annual cost to the System would be perhaps more than \$1,000,000, the Board feels that this matter should be discussed at some meeting of the Conference of Presidents later in the year, at which time the situation could be reviewed in the light of the conclusions and experiences of those banks which do photograph checks and those which do not. The Board is advising Mr. Davis, Chairman of the Presidents' Conference, to this effect.

"The Board would like to discuss further with you and Chairman Shepard the matter of the Annual Federal Reserve Conference. Since it is your usual practice, however, to hold this conference in the spring of the year and in view of the time element, the Board will interpose no objection to your proceeding with plans for the 1949 conference. It is believed that this procedure will allow ample time for full consideration of this matter and the reaching of definite conclusions in regard thereto sufficiently in advance of the time for planning your program for 1950.

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"No further comment is made at this time about the provision in the budget for the motion picture project, as Chairman McCabe and Governor Vardaman hope to talk with you about this matter while you are in Washington for the Presidents' Conference."

The following letter to Mr. Davis, Chairman of the Presidents' Conference, was also approved unanimously:

"In connection with the review by the Board of the 1949 budgets of the Federal Reserve Banks, it was noted that the Federal Reserve Banks of Boston, Cleveland, and Minneapolis had made provision in the Check Collection function for photographing all outgoing country checks.

"This matter has been taken up with each of the Banks concerned, and the Board has been informed that one of the principal benefits of this procedure is to furnish more complete service to member banks. In the circumstances, the Board is advising the Presidents of these three Banks that it will not further question the continuation of their practice in this respect for the remainder of the year.

"However, since it would appear that if all Federal Reserve Banks photographed outgoing country checks, the annual cost to the System would perhaps be somewhat more than \$1,000,000, the Board feels that this matter should be discussed at a meeting of the Conference of Presidents, at which time the situation could be reviewed in the light of conclusions and experiences of those Banks which photograph checks and those which do not.

"It will, therefore, be appreciated if you will have this topic placed on the agenda for a meeting of the Conference of Presidents later in the year."

The meeting then recessed and reconvened at 2 p.m. with the same attendance as at the close of the morning session except that Mr. Eccles and Messrs. Thomas, Young, and Solomon, Director and Associate Director of the Division of Research and Statistics, and Assistant General Counsel, respectively, were also present.

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A draft of a letter to Bank of America N.T. & S.A., San Francisco, prepared pursuant to the understanding at the meeting on February 21, 1949, informing the bank that the Board had denied its applications for permission to establish three branches in Germany and had approved an application for permission to establish a branch in Bangkok, Siam, was read and discussed.

It was understood that the draft would be revised along the lines of the discussion and, after it was approved by Messrs. Szymczak and Clayton, re-submitted to the Board for consideration.

Reference was made to memoranda prepared by Mr. Nelson under date of February 9, 1949, and furnished to each member of the Board with respect to contemplated changes in the Bank plan of the Retirement System of the Federal Reserve Banks. Mr. Nelson stated that the Personnel Committee of the Presidents' Conference had prepared a final report in connection with the study being made by a special committee of the Chairmen's Conference as discussed at the meeting on December 23, 1948, that it was expected that the Presidents' Conference would discuss the report at its meeting later this week, and that the special committee of the Chairmen's Conference hoped to be able to submit its final report and recommendations to the Board concerning changes which the Chairmen of the Federal Reserve Banks felt should be made to the Retirement System early in March. He also stated that if any changes were to be made effective as of

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March 1, 1949, it would be necessary to act upon them during the first half of March in order that the Trustees of the Retirement System could adopt the necessary changes in the Rules and Regulations and permit the retirement office to put the changes into effect.

It was agreed unanimously that the matter should be placed on the agenda for consideration at the meeting on Friday, March 4, 1949.

Chairman McCabe stated that he had been giving consideration to assignments of Board members for the coming year and that he would suggest that in the future he serve as Chairman ex officio of the Personnel Committee, with the understanding, however, that ordinarily he would attend meetings only when matters of special interest such as appointments of directors or salaries of Federal Reserve Bank officers were under consideration, that there be two regular members of the Personnel Committee with the senior member acting as Chairman in the absence of the Chairman, and that Mr. Riefler attend all meetings of the committee as a staff member so that he would be in a position to keep the Chairman informed. He also suggested that Mr. Szymczak and Mr. Clayton be appointed as members of the Personnel Committee for the year beginning March 1, 1949.

Question was raised as to whether other changes in assignments of Board members were to be made at the same time and Chairman

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McCabe stated that he had no further recommendations to make at this time but that he would be glad to receive suggestions from the other members of the Board as to any changes they felt should be made.

After a discussion, Chairman McCabe's suggestions with respect to the Personnel Committee were approved unanimously with the understanding that the question of assignments of members of the Board be considered at an early meeting of the Board in executive session.

At this time Mr. Nelson withdrew from the meeting and Mr. Lewis, Chief of the Consumer Instalment Credit Section of the Division of Bank Operations, and Mr. Pawley, Economist in that Division, entered.

In connection with a discussion of a possible amendment to Regulation W, Consumer Instalment Credit, Mr. Thomas presented data showing changes in consumer credit outstanding during the month of January 1949 which indicated that the reduction during that month had been substantially greater than in January 1948. There was a general discussion of the questions whether economic conditions called for a change in the terms provided under the regulation at this time and if so, what the changes should be, and whether the changes should be made effective immediately or postponed until the economic outlook could be further observed.

Chairman McCabe raised the question whether the staff had explored a suggestion made by Mr. Evans at the meeting on Monday

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that maturities be set at 21 months for new automobiles and 18 months for used automobiles and Mr. Leonard stated that the suggestion had been considered and that the staff committee recommended against such a change.

Various suggestions for changes were discussed further but no conclusions were reached and it was understood that the matter would be considered again at a meeting next week.

At this point Messrs. Riefler, Vest, Thomas, Leonard, Millard, Townsend, Young, Solomon, Lewis, and Pawley 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 February 23, 1949, were approved unanimously.

Memorandum dated February 21, 1949, from Mr. Carpenter recommending the appointment of William Russell Corkhum as a minutes clerk in the Secretary's Office, on a temporary basis for a period of six months, with basic salary at the rate of \$3,100.20 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

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"Board approves application for membership of City Bank, Detroit, Michigan, effective if and when the bank is authorized to commence business by the appropriate State authorities subject to the two standard conditions. Letter follows."

Approved unanimously.

Letter to the Honorable A. Willis Robertson, United States Senate, prepared for Chairman McCabe's signature in accordance with the action taken at the meeting on February 18, 1949, reading as follows:

"I have your letter of February 19, 1949, enclosing copies of S. 80, S. 949, and S. J. Res. 9, which have been referred to your subcommittee, indicating that you will be glad for us to be giving them attention.

"S. J. Res. 9 would provide for the establishment of a National Monetary Commission to study the fiscal policy of the Government and possible changes in the laws relating to banking and credit. Since we understand that the Commission on Organization of the Executive Branch of the Government is expected to make a report on matters closely related to the subjects which would be studied by the proposed Monetary Commission, we would prefer waiting until we have had an opportunity to consider the report of the Commission on Organization before expressing any views on S. J. Res. 9.

"S. 949 is a bill arising out of a controversy between the FDIC and a private individual and, accordingly, falls primarily within the jurisdiction of that Corporation. However, for your information I enclose a copy of the letter which I addressed to the Senate Banking and Currency Committee last year in which we expressed our opposition to an identical bill.

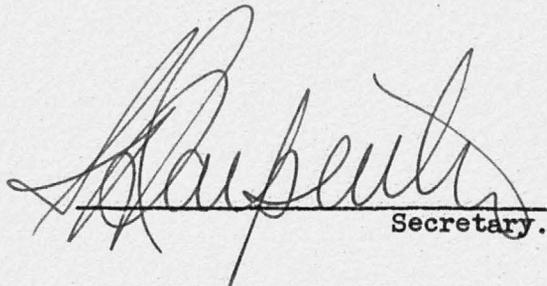
"S. 80 would increase the amount of an insured deposit in an insured bank from \$5,000 to \$15,000. Since this also is a matter which primarily concerns the FDIC, I would like to have an opportunity to consider their views concerning it before expressing any opinion on it.

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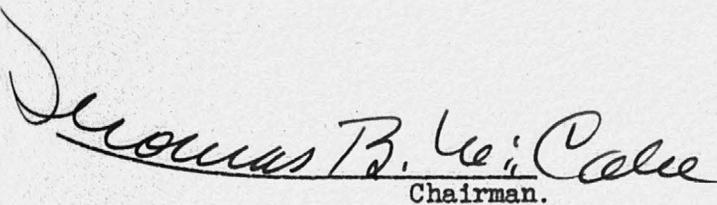
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"I appreciate your writing me regarding these bills and I can assure you that I shall be only too glad to see that they are studied and to write you our views on them at a later date."

Approved unanimously.


Secretary.

Approved:


Chairman.