

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 19, 1949. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
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. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Dembitz, Chief of the International Financial Operations Section of the Division of Research and Statistics
Mr. Hersey, Economist, Division of Research and Statistics
Mr. Tamagna, Economist, Division of Research and Statistics

Mr. Vardaman stated that Mr. Phillips, Chairman of the Jacksonville Branch of the Federal Reserve Bank of Atlanta, called at the Board's offices yesterday and discussed with him and Mr. Leonard the position taken in the Board's letter to the Atlanta Bank dated December 30, 1948, with respect to the proposed building for the Jacksonville Branch. Mr. Vardaman went on to say

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that they reviewed with Mr. Phillips the suggestions made by Mr. Persina, Consulting Architect of the Board, regarding the proposed building. Mr. Vardaman also stated that if the Atlanta Bank were to adopt the suggestions made by Mr. Persina, he would recommend that the Bank be authorized to have final drawings prepared.

At Mr. Vardaman's request, Mr. Leonard outlined Mr. Persina's suggestions, stating that Mr. Phillips indicated that the suggestions were acceptable to him and that he would be glad to present them to his directors as well as to the directors of the Federal Reserve Bank of Atlanta upon his return.

Following the discussion, upon motion by Mr. Vardaman, a letter to Mr. Neely, Chairman of the Atlanta Bank, was approved unanimously in the following form, with the understanding that a copy would be sent to Mr. Phillips.

"Mr. Phillips, Chairman of your Jacksonville Branch, has been in Washington and during his visit took up with Governor Vardaman and Mr. Leonard, Director of the Board's Division of Bank Operations, the plans for your Jacksonville Branch building. In those discussions they have gone over the entire situation in an effort to find a solution which would be satisfactory to all concerned.

"The preliminary sketches submitted by your Bank had been submitted to Mr. Persina, the Board's consulting architect, for review and his comments were taken fully into account in the discussions with Mr. Phillips. A copy of Mr. Persina's letter with his comments and suggestions was given to Mr. Phillips and a copy is enclosed herewith. It will be noted that Mr. Persina's principal suggestion is in connection with the location of the building and the development of the site.

"The whole matter was reconsidered by the Board at its meeting this morning in the light of Mr. Persina's

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"comments and all of the members present indicated a desire to find as promptly as possible a solution which would be satisfactory to all concerned and permit the early construction of the building.

"With that in mind, the suggestions of Mr. Persina are submitted for the consideration of the directors of your Bank and the Jacksonville Branch. Should the approach suggested by Mr. Persina be acceptable to your directors and should your architects develop mutually satisfactory preliminary plans, the Board would then authorize the preparation of final plans and specifications with the understanding that, in accordance with the usual procedure, they would be submitted to the Board for consideration before requests are made for bids for the construction of the building.

"Mr. Persina makes the further suggestion that a 4-story and basement structure might provide adequate space for the needs as estimated in the data submitted with the preliminary plans. However, if your Directors are of the opinion that a 5-story and basement structure is desirable, the Board would be willing to approve a building of that size, developed in accordance with suggestions made in the previous paragraph, provided the building is so arranged that unused space can be rented.

"This action is taken with the understanding, as stated in the Board's letter of December 30, 1948, that upon completion of the new building the present property owned by the Bank on Hogan Street, including the parking lot, will be sold."

Mr. Szymczak called upon Mr. Hersey to give a report of his work with the United States Economic Mission to Brazil which recently completed a survey of fiscal and financial policies of the Brazilian government. Following Mr. Hersey's report, Mr. Tamagna reported on his mission to Korea for the Economic Cooperation Administration in February and March of this year.

Messrs. Dembitz, Hersey, and Tamagna then withdrew.

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Mr. Draper stated that he recently received a copy of the minutes of the meeting of the Investment Committee of the Federal Reserve Retirement System held in Washington on February 27, 1949, from which he learned for the first time that a decision was reached at that meeting to place approximately \$2 million in common stocks during the coming year and that inasmuch as Mr. Nelson was going to Chicago for a meeting of the Retirement Committee, he asked him to discuss the matter with Mr. Young, Chairman of the Investment Committee, and ascertain why this action was taken, particularly since he told Mr. Young last October that it was the informal view of the members of the Board that there should be no further investment in common stocks pending a decision on the question of policies to be followed with respect to investment for the Retirement System which was raised with the Presidents when they met with the Board on December 9, 1947. Mr. Draper added that Mr. Young informed Mr. Nelson that his committee was under the impression that the whole question of investment policy raised by the Board was not being pressed, that it would be in order to go ahead with a program which contemplated the investment of approximately 4 per cent of the total retirement fund in common stocks, and that the decision to invest \$2 million additional in common stocks was for the purpose of carrying out that program. At Mr. Draper's request, Mr. Carpenter read a memorandum from Mr. Draper which read in part as follows:

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"I called Mr. Young on the telephone on Monday, April 4, and he made substantially the same statement to me. I told him that the policy question had been under consideration by a committee of the Presidents' Conference from time to time; that the Board had been awaiting the comments of the Conference regarding it; that I understood that the report submitted by Mr. Earhart's committee would be on the agenda for the next Presidents' Conference and the matter would be discussed with the Board at that time; that I was unable to say what the Board's final decision would be on the proposal presented by the Board at the joint meeting of the Presidents and the Board in December 1947, but that in the circumstances I would question the desirability of increasing investments in common stocks at this time.

"Mr. Young said that he would call the other members of the investment committee and recommend that no further purchases be made until after the next meeting of the Presidents and the Board. Later he called me back and stated that it had been intended to purchase \$468,000 of common stocks before the next meeting of the Presidents' Conference, that \$448,000 had been acquired, that instructions were already placed for the remaining \$20,000, and that in the circumstances he saw no point in rescinding the instructions for that small amount. He added that no further orders would be placed pending the decision at the next meeting.

"At its meeting on March 4, 1949, the Board took the position that before the proposed liberalizing changes in the Retirement System were made effective, there should be an agreement on the question of investment policy. The Special Committee of the Presidents' Conference (of which Mr. Earhart is Chairman), appointed to make a recommendation on the question of investment policy, has recommended as the best solution of the problem, a continuation of the present general policy which would be directed toward building up the earnings of the retirement system to 3 per cent, and I believe the Presidents' Conference will favor substantially this course of action. It would be my suggestion, therefore, that the Board discuss the matter at this meeting today so that as soon as Governor Eccles returns the Board can determine what its position

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"with respect to investment policy is going to be and appropriate advice of the Board's decision can be given to the Chairmen and the Presidents."

In a discussion of Mr. Draper's suggestion, Mr. Vardaman stated that he was opposed to continuation of an actual or implied guarantee by the Board of the liabilities of the Retirement System unless the investments of retirement funds were confined to direct or guaranteed Government obligations.

At the conclusion of the discussion, it was agreed unanimously that the matter be taken up again at a meeting later this week.

The meeting then recessed and reconvened at 2:40 p.m. with the same attendance as at the end of the morning session except that Mr. Thomas was not present and Mr. Millard was in attendance.

Mr. Szymczak stated that in accordance with the action taken by the Board on April 5, 1949 representatives of the Board conferred with Russell G. Smith, executive vice president, and Roland Pierotti, Washington representative of the Bank of America N.T. & S.A. on Wednesday afternoon and Thursday morning, April 13 and 14, 1949, for the purpose of discussing the foreign branch operations and capital position of the bank in relation to its applications for permission to establish three additional branches in Germany. Mr. Szymczak referred to a memorandum of the conference prepared following the meeting and submitted to the members of the Board for their information, and he summarized the important points

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covered during the conference. He also said that he had asked Mr. Millard, working with other members of the staff, to review the matter carefully and submit a memorandum outlining the approaches that might be taken by the Board on the matter, after which he (Mr. Szymczak) and Mr. Clayton would make a recommendation to the Board as to the action to be taken.

During the ensuing discussion, Chairman McCabe suggested that confidential copies of the memorandum of the conference be sent to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation with a request for such comments as they might wish to make for consideration by the Board in reaching its decision on the applications to establish the branches in Germany.

In this connection, question was raised whether the comments made by Mr. Smith were of such a confidential character that the memorandum should not be sent to the Comptroller of the Currency and the Federal Deposit Insurance Corporation without first asking Mr. Smith whether he would have any objection. It was agreed, however, that since the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation are Federal Bank supervisory agencies, there was no reason why the memorandum should not be sent to them for the purpose suggested by Chairman McCabe.

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Thereupon the following letter to Mr. Smith was approved unanimously, with the understanding that when a reply to the letter was received, copies of the memorandum would be sent to the Comptroller of the Currency and Chairman Harl:

"In accordance with your request, there is enclosed a copy of the memorandum which we have made of the conference of representatives of the Board of Governors with you and Mr. Pierotti on April 13 and 14, 1949. A copy of this letter and the memorandum is also being sent today to Mr. Pierotti.

"It is believed that the memorandum is an accurate record of the conference. However, it would be helpful if you would send us advice to reach the Board as promptly as convenient but not later than April 26, 1949, whether you have any changes to suggest in the memorandum."

Mr. Millard left the meeting at this time and Mr. Leonard entered the room.

Mr. Vardaman referred to the discussion at the meeting on April 12, 1949, of the request of the Minneapolis Bank for approval of the expenditure of as much as \$20,000 for the purpose of remaking its moving picture "Behind Banks and Business", and he suggested that the Minneapolis Bank be authorized to make an expenditure of as much as \$10,000 for the purpose, with the understanding that the Board would contribute an equal amount to the project and would designate Mr. Thurston to consult with the Minneapolis Bank in preparing the film with a view to making it into a film which could be used by all of the Federal Reserve Banks. He added that he had discussed the proposal with Mr. Powell, First Vice President

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of the Minneapolis Bank when Mr. Powell was in Washington on April 12 and that Mr. Powell indicated that the bank would be glad to undertake the project on that basis.

Upon motion by Mr. Vardaman, the foregoing suggestion was approved unanimously, with the understanding that the appropriate item in the budget of the Division of Administrative Services would be increased by the amount of the contribution made by the Board.

Question was then raised as to the request of the Federal Reserve Bank of Cleveland for permission to expend as much as \$10,000 for the purpose of making a moving picture of the operations of the Cleveland Bank and Chairman McCabe suggested that Mr. Thurston get in touch with Mr. Gidney to find out whether he would wish to defer the Cleveland film and collaborate in the proposed revision of the Minneapolis film.

Chairman McCabe's suggestion was approved unanimously and it was understood that Mr. Thurston would talk with Mr. Gidney by telephone.

Mr. Nelson left the meeting at this point.

There was then presented a letter from the Senate Banking and Currency Committee requesting a report on S. 1559, "A Bill for the Establishment of a National Monetary Commission."

Mr. Vest stated that this bill, which was introduced by Senator Maybank, Chairman of the Committee, for himself and Mr.

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Tobey, was one of three proposals to study the monetary system.

There was a discussion of the request during which Chairman McCabe suggested that he discuss the matter informally with Senator Maybank before the preparation of a draft of reply was undertaken.

Chairman McCabe's suggestion was approved unanimously.

Mr. Clayton referred to the meetings of the Presidents' Conference, the Federal Open Market Committee, and the Board of Trustees of the Retirement System to be held during the week beginning May 2 and raised the question whether the Board, as it had done on previous occasions, should plan a dinner for the Presidents of the Federal Reserve Banks while they were in Washington. He added that he felt that such an arrangement would be desirable if it could be fitted into the program for the week.

Mr. Clayton's suggestion was approved with the understanding that the Board would pay the cost of the dinner if a suitable time could be arranged. Mr. Vardaman did not vote on this action.

Mr. Leonard left the meeting at this time and Mr. Thomas entered.

Chairman McCabe reviewed the consideration that he had been giving to the program for legislation on reserve requirements and consumer instalment credit and asked for the views of the members of the Board on the question what if any change should be made in the form of the legislation in the light of the changed economic situation since he testified before the Joint Committee on the Economic Report in February.

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The matter was discussed and it was the view of the members present that while no vote should be taken at this time and the matter should be discussed again at a later meeting, the Board, because of the changed conditions, should request that the existing supplemental authority be continued, should take a strong position that this authority be made applicable to all insured banks, and request that a study be made by the Congress with a view to determining a more satisfactory basis for the computation of reserves.

Reference was made to a draft of letter to the Bureau of the Budget, prepared in response to the President's letter of March 23, 1949, requesting the comments of the Board on the proposals contained in the Hoover Commission report on regulatory commissions as well as on recommendations affecting the Board of Governors which may appear in other Commission reports. A copy of the letter had been sent to each member of the Board before this meeting.

Upon motion by Mr. Draper, the letter was approved unanimously in the following form:

"This is in response to the President's letter of March 23, 1949, requesting the comments of the Board of Governors on the proposals contained in the Hoover Commission Report on Regulatory Commissions as well as on the recommendations affecting the Board of Governors which may appear in other Commission reports.

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"The report on regulatory commissions deals generally with nine governmental agencies in which the Federal Reserve Board is included. It is stated that in this report the Commission has confined itself to a discussion of the organizational problems of these agencies and that it does not deal with their other functions. It makes no specific recommendations regarding the Federal Reserve Board separately but states that the Commission's task force on regulatory agencies makes recommendations, not included in this report, which the Commission hopes will be given thorough study and consideration by both the Congress and the commissions concerned. While the task force report on regulatory agencies deals more comprehensively with the organizational problems involving the functions of the Federal Reserve Board than any other report emanating from the Commission, there are references to these subjects in other task force reports and also in other reports of the Commission itself, some of which are at variance with others.

"Except as might be inferred from the recommendations of the task force on regulatory agencies, there is no overall attempt to define the place and functions of the Federal Reserve System and of the Board as its governing body with respect to responsibility for credit and monetary policy. The Board believes that this is an essential prerequisite to a solution of the organizational problems involving the various agencies of Government that deal with banking credit, and monetary matters.

"The importance of such an overall definition of functions and responsibilities is illustrated by the fact that in the task force report on regulatory agencies the recommendation is made that all Federal bank supervisory activities be combined in one, preferably the Federal Reserve Board; that the Federal Deposit Insurance Corporation, however, be continued as a separate insuring body with a board of directors which would include the Chairman or Vice Chairman of the Board of Governors; that all insured banks be made subject to reserve requirements applicable to member banks; that the policymaking power of the Federal Reserve Board and Open Market Committee be consolidated in a new, smaller board; and that a national monetary council be formed in order to coordinate Federal fiscal, credit, and monetary policies.

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"The new smaller board recommended by this task force would comprise three members with six year terms. However, the task force report on the Treasury makes the specific suggestion that the Assistant Secretary of the Treasury in charge of Banking and International Finance (a position which does not now exist) or the Secretary or Undersecretary of the Treasury be a member of the Federal Reserve Board, while the Commission's report on regulatory agencies treats the Board as an independent agency covered by a general recommendation that these bodies have bi-partisan membership. The Commission in one of its reports also recommends that supervision of the operation of the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, and the Export-Import Bank be vested in the Secretary of the Treasury, to which there are numerous dissents within the Commission. There are only passing references to the Office of the Comptroller of the Currency and it is not clear from the Commission's own reports precisely what disposition the Commission would make of that office.

"The foregoing observations cover only some of the more important questions which are raised by an examination of the Commission's reports thus far issued, but they serve to illustrate the difficulty of commenting adequately upon the Commission's recommendations so far as they affect the Federal Reserve System.

"Since in any event recommendations of substantial consequence would involve changes in the basic law governing the Federal Reserve System the Board believes that there should be a careful study in the Congress of the whole problem before any fundamental reorganization is undertaken. If, in the meantime, any plan for a reorganization involving the Federal Reserve System should be formulated, the Board would like to have a further opportunity to offer its comments."

Mr. Solomon, Assistant General Counsel, entered the meeting at this time.

A memorandum from Mr. Clayton, dated April 18, 1949, was then presented to which was attached a draft of possible amendments to Regulations T, Extension and Maintenance of Credit by Brokers,

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Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, relating to: (1) substitutions of securities in undermargined accounts and (2) special cash discount under Regulation T (7-day rule and certain other features).

The memorandum recommended that the Board adopt these amendments without further delay, stating that they were minor technical amendments in the direction of relaxation and simplification for the trade. It also raised the question whether action on the amendments should be deferred until the Board was ready to act on amendments granting special concessions in connection with (1) the purchase of stock through the exercise of rights and (2) transactions of specialists.

Mr. Clayton stated that the amendments had been cleared informally with the staff of the Securities and Exchange Commission and it was suggested that Mr. Clayton call the Chairman of the Commission for the purpose of ascertaining informally whether the Commission itself had any objection.

Following a discussion, upon motion by Mr. Clayton the following amendments to Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, were adopted by unanimous vote with the understanding that, unless some

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objections were raised by the Securities and Exchange Commission which would require further consideration by the Board, the amendments would be effective May 1, 1949:

"AMENDMENT NO. 8 TO REGULATION T

"Issued by the Board of Governors of the Federal Reserve System

"Effective May 1, 1949, Regulation T is hereby amended in the following respects:

"1. The second paragraph of section 3(b) of Regulation T is amended to read as follows:

'A transaction consisting of a withdrawal of cash or registered or exempted securities from a general account shall be permissible only on condition that no cash or securities need to be deposited in the account in connection with a transaction on a previous day and that, in addition, the transactions (including such withdrawal) on the day of such withdrawal would not create an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account or increase any such excess.'

"2. Section 4(c)(7) of Regulation T is amended to read as follows:

'(7) The 7-day periods specified in this section 4(c) refer to 7 full business days. The 35-day period and the 90-day period specified herein refer to calendar days, but if the last day of any such period is a Saturday, Sunday, or holiday, such period shall be considered to end on the next full business day. For the purposes of this section 4(c), a creditor may, at his option, disregard any sum due by the customer not exceeding \$100.'

"3. Section 4(c)(8) of Regulation T is amended by adding the following at the end thereof:

'For the purposes of this section 4(c)(8), the cancellation of a transaction, otherwise than to correct an error, shall be deemed to constitute a sale. The creditor may disregard for the purposes of this section 4(c)(8) a sale without prior payment provided full cash payment is received within the period described by subdivision (2) of this section 4(c) and the customer has not withdrawn the proceeds of sale on or before the day on which such payment (and also final payment of any check received in that connection) is received. The creditor may so disregard a

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"'delivery of a security to another broker or dealer provided such delivery was for deposit into a special cash account which the latter broker or dealer maintains for the same customer and in which account there are already sufficient funds to pay for the security so purchased; and for the purpose of determining in that connection the status of a customer's account at another broker or dealer, a creditor may rely upon a written statement which he accepts in good faith from such other broker or dealer.'

"AMENDMENT NO. 9 TO REGULATION U

"Issued by the Board of Governors of the Federal Reserve System

"Effective May 1, 1949, the third paragraph of section 1 of Regulation U is hereby amended to read as follows:

'While a bank maintains any such loan, whenever made, the bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan. In case such maximum loan value has become less than the amount of the loan, a bank shall not permit withdrawals or substitutions that would increase the deficiency; but the amount of the loan may be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.'

Secretary's Note: Following the meeting, Mr. Clayton called Mr. Hanrahan, Chairman of the Securities and Exchange Commission, and was subsequently advised that the Commission had no objection to the amendments.

The following statement for release to the press for publication in the morning newspapers of Thursday, April 21, 1949, was also approved unanimously with the understanding that the release and the amendments would be wired to the Federal Reserve Banks with the request that the amendments be printed and distributed to interested parties:

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"The Board of Governors has made two technical amendments in Regulations T and U (margin requirements) in order to facilitate and simplify operations under the Regulations. One further liberalizes rules on withdrawals and substitutions. The other simplifies the rules to be followed by brokers and dealers in connection with cash accounts. The amendments, which become effective May 1, are attached."

Unanimous approval was also given to the following statement for inclusion in the Federal Register:

"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 [12 CFR 262.2(e)], and especially because in connection with this permissive amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

All of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting at this point.

Reference was made to a memorandum submitted by Mr. Thomas dated April 7, 1949, in accordance with the understanding at the meeting of the Board on March 23, 1949, that he would outline the itinerary of his contemplated trip to Europe. The memorandum stated that he had been able to obtain boat reservations leaving New York on April 25 and returning to New York on July 19, that this contemplated a longer absence than was indicated in his memorandum of March 16, but that for the reasons outlined he would much prefer to go by ship rather than plane, and that

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while in Europe he would take, as time would permit, such vacation (at least 14 days) as he would have this summer. The memorandum also requested that the Board authorize, in addition to his customary transportation expenses, a per diem of \$20 except while he was on shipboard and on vacation, such other ordinary expenses as might be needed for him properly to represent the Board with a limit of \$500 on such expenditures, and a cash advance of \$2,500 for current expenses and out-of-pocket expenses for railroad and plane travel while in Europe, such amount to be deducted from the amounts which would otherwise be due him for travel expenses. The amount due Mr. Thomas for accumulated annual leave was more than sufficient to serve as security for this advance.

The memorandum had been circulated among the members of the Board and at this meeting there was an informal discussion of the trip for the longer period proposed by Mr. Thomas. During the discussion, Mr. Clayton said that Mr. Eccles, in a telephone conversation with him, had stated that he would be opposed to Mr. Thomas leaving as early as April 25 and felt that he should defer his going until a more appropriate time sometime in May and not later than June 1 when he could fly to Europe and make substantially the same visits as now contemplated.

Mr. Vardaman stated that he saw no value to the Board in the trip; that the matter had proceeded to a point, however, where

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he would not interpose an objection to Mr. Thomas going; but that he would not favor it, and that he would oppose any trips of this kind by members of the staff in the future.

No conclusions were reached in the matter and it was understood that it would be discussed further at a meeting of the Board to be held at 10 a.m. tomorrow, April 20, 1949.

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 April 18, 1949, were approved unanimously.

Memorandum dated April 18, 1949, from Mr. Clayton requesting that a check in the amount of \$130 be issued to Mr. Joseph R. Fitzpatrick, Chairman, Transportation Committee of the District of Columbia Bankers Association, to cover railroad transportation, pullman, and hotel accommodations for Mr. Clayton's attendance at the Annual Convention of the District of Columbia Bankers Association in White Sulphur Springs, West Virginia, June 15-19, 1949.

Approved unanimously.

Memorandum dated April 14, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Robert H. Craft as a guard in that Division, with basic salary at the rate of \$2,350 per annum, effective as of the date upon which he enters upon the performance of his duties after

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having passed the usual physical examination.

Approved unanimously.

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

"This refers to your letter of March 29, 1949, relating to a plan submitted by The Union Bank of Commerce Company, Cleveland, Ohio, under which the bank would organize a new subsidiary corporation which, if it is the successful bidder, would acquire the Union Commerce Building, the building in which the bank is located.

"It is noted that, while your Bank's counsel are of the opinion that the Board's approval is not necessary under Section 24A of the Federal Reserve Act, you feel that the size of the transaction alone warrants its consideration by the Board and you recommend that the Board either approve or interpose no objection to it. Without passing on the question whether approval is required, the Board, in the light of all of the facts of this case and your favorable recommendation, approves the acquisition of the Union Commerce Building in substantial conformity with the program outlined in your letter.

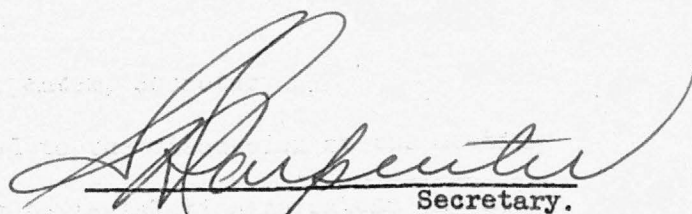
"It appears that the purchase of the stock of the new corporation by The Union Bank of Commerce Company will constitute a technical violation of the statutory provisions relating to the purchase of corporate stocks by State member banks, since the corporation will not hold the bank premises when the stock is purchased. It also appears that the arrangement under which the bank will loan the stock of Union Properties, Inc., to the new corporation to assist it in the interim financing of the purchase of the building may constitute a violation of Section 23A of the Federal Reserve Act. However, if the new corporation is the successful bidder for the building, and the stock of Union Properties, Inc., is returned to the bank upon completion of the transaction as contemplated, these violations will be of a temporary nature and, in the circumstances, the Board will take no action with respect to them. On

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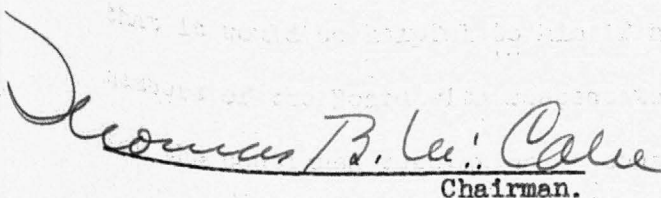
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"the other hand, if the new corporation does not acquire the building, the bank will be expected to dissolve the corporation or sell its stock without delay."

Approved unanimously.


Secretary.

Approved:


Chairman.