Minutes of actions taken by the Board of Governors of the
Federal Reserve System on Tuesday, May 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. 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. Nelson, Director, Division of Personnel Administration
Mr. Young, Associate Director, Division of Research and Statistics

Before this meeting there had been circulated among the members
of the Board a memorandum from the Personnel Committee dated May 10,
1949, prepared pursuant to the action at the meeting on April 28, 1949,
and a memorandum dated May 4, 1949, from Messrs. Young and Noyes, with
respect to recommendations contained in a memorandum from Mr. Thomas,
Director of the Division of Research and Statistics, dated March 31,
1949, for increases in the salaries of Messrs. Dembitz, Chief of the In-
ternational Financial Operations Section, Hersey, Chief of the Far Eas-
tern Section, and Tamagna, Economist, all in the Division of Research
and Statistics. The memorandum of May 4 summarized the background for
the recommended increases.

During a discussion of the memoranda, Mr. Vardaman stated that
he questioned the methods used in reclassifying the positions of Messrs. Dembitz, Hersey, and Tamagna to higher grades and did not feel the procedure followed that contemplated at the time the Board approved a reorganization of the International Section of the Research Division on December 17, 1948. He also said that he understood at that time that no members of the Board's staff were qualified for promotion to the positions in question, that it would be necessary to employ persons from outside the Board's organization to fill the positions, and that although he did not question the abilities of Messrs. Dembitz, Hersey, and Tamagna, he did question whether in the period since last December they had developed sufficiently or assumed additional responsibility to justify the higher classifications. He added, however, that he would interpose no objection to the proposed increases in salaries if the other members of the Board approved them.

Mr. Eccles stated that while he did not question the abilities of Messrs. Dembitz, Hersey, and Tamagna, he felt that the number of higher-salaried positions in the International Section of the Research Division was getting out of balance with similar positions in the domestic sections of the Research Division in relation to the importance of the work in the respective fields.

There was a general discussion of the efforts made by the Division of Research and Statistics to secure additional qualified
personnel and of the reasons for promotion of the individuals concerned to higher grade positions. There was also a discussion of the emphasis to be put upon work in the international field as compared with that in the domestic field and of the control of expansion in such work through placing limits on the budget for the work.

Following the discussion, upon motion by Mr. Szymczak, unanimous approval was given to the recommendation in the memorandum from the Personnel Committee dated May 10, 1949, and to the recommendations contained in Mr. Thomas' memorandum of March 31, 1949, for increases in the salaries of Messrs. Dembitz, Hersey, and Tamagna, effective with the pay roll period beginning May 29, 1949, as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Salary Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lewis N. Dembitz</td>
<td>Chief, International Financial Operations Section</td>
<td>$9,407.25 to $10,305.00</td>
</tr>
<tr>
<td>Arthur B. Hersey</td>
<td>Chief, Far Eastern Section</td>
<td>8,389.80 to 8,509.50</td>
</tr>
<tr>
<td>Frank M. Tamagna</td>
<td>Economist</td>
<td>8,389.80 to 8,509.50</td>
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Mr. Millard, Director of the Division of Examinations, entered the meeting at this point.

Mr. Vardaman stated that on his recent visit to the Midwest he understood from his conversations with a number of bankers that the Office of the Comptroller of the Currency, and perhaps the Federal Deposit Insurance Corporation, was following a practice of requiring or suggesting to banks that they should have a ratio of capital to risk assets of one to six, and he raised the question as to the desirability of the policy which he understood was being followed.
Mr. Millard outlined the results of his discussions with Messrs. Folger, Chief National Bank Examiner in the Office of the Comptroller of the Currency, and Sailor, Chief of the Division of Examinations of the Federal Deposit Insurance Corporation, concerning the question raised by Mr. Vardaman. During the discussion, it was suggested that the matter be considered at a meeting when Mr. Clayton was present because it involved examination procedures and because it had a direct bearing upon the proposed uniform agreement for examination procedures discussed at the meeting on May 10, 1949.

This suggestion was approved unanimously.

Mr. Eccles referred to the increase in reserve requirements of member banks in September 1948 and the reduction in such requirements effective early this month. He suggested that because of comments in the press which raised a question as to the effect of the termination of the authority over supplemental reserve requirements if that authority were not extended beyond June 30 of this year, the Board issue a statement making it clear that the two most recent changes in reserve requirements at banks located in central reserve cities were taken under the supplemental reserves authority of the Board, that if the authority with respect to supplemental reserve requirements was not extended by Congress after June 30, 1949, it would not result in a further reduction in reserve requirements on demand deposits of such
banks, and that the total reduction in reserve requirements for all member banks resulting from the lapse of the authority would amount to only approximately $800 million and not $1,200 million as suggested in the press. It was the consensus that it would not be necessary to issue a formal statement, but it was agreed that Mr. Thurston would take such steps as appeared desirable in the circumstances to assure that the press understood the effect of the lapse of the temporary authority and the changes in required reserves of member banks that would result therefrom.

Mr. Millard withdrew from the meeting at this time and Messrs. Leonard, Director of the Division of Bank Operations, and Solomon, Assistant General Counsel, entered.

Mr. Vardaman raised the question whether Regulation W, Consumer Instalment Credit, should be terminated promptly in view of the probability that Congress would not extend the temporary authority of the Board to regulate such credit after June 30, 1949. He also said that in view of the short period of time between now and June 30, he did not feel it was important whether the Regulation was terminated prior to June 30.

There was a discussion of the Regulation in relation to the changing economic situation, and Mr. Vardaman raised the question whether reserve requirements of member banks should be reduced in anticipation of expiration of the authority over supplemental reserve
requirements at the end of June, adding that he would not press for action in the matter at this time.

There followed a brief discussion during which the members of the Board who were present agreed that no change should be made at this time in either supplemental reserve requirements of member banks or in Regulation W.

Mr. Draper referred to a letter dated May 14, 1949, from Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Chairman of the Executive Committee of the Board of Trustees of the Retirement System of the Federal Reserve Banks, stating that the Committee had voted to invite the Board to appoint two of its members as associates to sit with the Investment Committee of the Retirement System. Question was raised whether two members of the Board should be appointed or whether one member of the Board and one member of the staff should serve in this capacity. During the discussion, it was stated that at the present time no employee representatives of any of the Federal Reserve Banks sit with the Investment Committee, and the suggestion was made that one member of the Board be appointed to serve with a member of the staff who would serve as a technical assistant.

This suggestion was not accepted, and after a discussion, upon motion by Mr. Draper, unanimous approval was given to a telegram to Mr. Gilbert in the following form:
"Your letter May 14 to Chairman McCabe. Board has designated Mr. Draper as associate of Investment Committee of Federal Reserve Retirement System, with Mr. Szymczak as his alternate and both to attend meetings of the Committee. Board has also designated Mr. Gerald M. Conkling of the Board's staff and a member of the Board of Trustees as technical assistant to Messrs. Draper and Szymczak."

Mr. Vardaman referred to a letter from Mr. Gidney, President of the Federal Reserve Bank of Cleveland, dated May 13, 1949, informing the Board of a proposed reduction in the Bank's check collection time schedules and to a memorandum from Mr. Leonard dated May 24, 1949, with respect to the proposal. The memorandum stated that the proposed changes would result in a maximum 2-day (instead of 3-day) deferment for country checks on the following and recommended that Mr. Gidney be advised that the Board has no objection to the proposal:

"1. All banks within the Cleveland Federal Reserve District.
"2. Banks in those parts of the 'split States' of Pennsylvania, West Virginia, and Kentucky lying in other Federal Reserve Districts.
"4. Other States in adjoining districts: New Jersey, Delaware, and Illinois."

At Mr. Vardaman's suggestion, unanimous approval was given to a letter to Mr. Gidney reading as follows:

"This is in reply to your letter of May 13, 1949, regarding modifications you propose to make in the check collection time schedules of your Head Office and branches. "The Board appreciates your advice regarding the proposed changes and has no objection to them."
At this point, Messrs. Riefler, Vest, Leonard, Nelson, Solomon, and Young 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 May 23, 1949, were approved unanimously.

Memorandum dated May 20, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending that John M. Poundstone, a payroll clerk in the Division of Administrative Services, be transferred to his office as a clerk, with no change in his present basic salary of $3,601.80 per annum, effective May 24, 1949.

Approved unanimously.

Memorandum dated May 24, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Ruth Buck, a page in that Division, be accepted, to be effective, in accordance with her request, at the close of business May 27, 1949.

Approved unanimously.

Letter to Mr. A. P. Giannini, Founder-Chairman, Bank of America National Trust and Savings Association, San Francisco, reading as follows:

"In your letter of April 30, 1949, you state that you have not been able to locate in the files of your bank certain information and communications relating to the bank during the period between February 15, 1932 and December 31, 1933. In order that the bank's files may be complete in
"this respect, you request copies of any material in the Board's files relating to or forming the basis of an opinion stated in your letter to have been expressed by certain officials that Bank of America should not be permitted to open after the 1933 Banking Holiday and any other material which formed the basis of the decision to license the bank to open, and you also request copies of certain correspondence and communications between yourself or other officers of the bank and members of the Board during the period indicated.

"Under the Presidential Proclamation concerning the Banking Holiday and the Executive Order for the subsequent reopening of the banks the Board did not have responsibility for the licensing of banks to reopen, and the Board's records do not contain any material that you request concerning the opinion stated in your letter to have been expressed or the decision regarding the reopening of your bank.

"After a careful search, the only communications we have found in the Board's records between officers of Bank of America National Trust and Savings Association and this Board or members of the Board during the period in question are the following, copies of which are enclosed:

1. Letter of February 29, 1932, from Will F. Morrish, President of Bank of America National Trust and Savings Association, to the Federal Reserve Board.
   2. Reply of March 4, 1932, to the above letter.
   3. Letter of August 16, 1932, together with enclosure, from Russell G. Smith, Cashier of Bank of America National Trust and Savings Association, to the Federal Reserve Board.
   4. Reply of August 22, 1932, to the above letter.
   5. Letter of August 11, 1933, together with enclosures, from A. P. Giannini, Chairman of Bank of America National Trust and Savings Association, to Eugene R. Black, Governor of the Federal Reserve Board.
   6. Reply of September 1, 1933, to the above letter.

"We assume that you are not interested in correspondence between managers of your branches and the Board. However, we have found copies of correspondence during the
"period in question between the manager of your London Branch and the Board, with reference to his request for material on the development of American banks abroad, and between the manager of your Santa Cruz Branch and the Board, with reference to his inquiry concerning the rate of interest to be paid on time deposits. We will be glad to furnish you with copies if you would like us to do so."

Approved unanimously.

Letter to the Wilton National Bank, Wilton, New Hampshire, reading as follows:

"This refers to the resolution adopted on December 14, 1948, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it. The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by section 11(k) without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of section 11(k)."

Approved unanimously, for transmission through the Federal Reserve Bank of Boston.
5/24/49

Letter to The Honorable, The Comptroller of the Currency,
reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 21, 1948, for the printing of Federal Reserve notes of the Federal Reserve Bank of San Francisco in the amount and denomination stated below:

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Number of sheets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100</td>
<td>9000</td>
<td>$10,800,000</td>
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Approved unanimously.

Approved:

[Signature]

Chairman.