

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 21, 1949. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Draper
Mr. Evans
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. Leonard, Director, Division of Bank Operations
Mr. Bethea, Director, Division of Administrative Services
Mr. Vest, General Counsel
Mr. Young, Associate Director, Division of Research and Statistics

Chairman McCabe referred to the discussion of bank holding company legislation at the meeting on June 14 and stated that following that meeting he talked with Secretary of the Treasury Snyder who said he had no objection to having the legislation sent to Congress and his only question was whether it would be considered at this session if introduced. Chairman McCabe said that he then talked with Mr. Staats, Assistant Director of the Bureau of the Budget, who requested that a draft of the proposed bill be sent to him and who stated that he would call Secretary Snyder, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation

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after which he would advise as to whether the Bureau would be able to clear the bill.

At Chairman McCabe's request, Mr. Vest reported that he delivered copies of the draft bill to the Bureau of the Budget on Wednesday, June 15, that when he called the Bureau on Friday, June 17, 1949, he was informed that the Treasury Department had stated that it would like to make a formal report on the draft if it was to go to Congress with the acquiescence of the Budget Bureau, that no one was available at the Federal Deposit Insurance Corporation to comment on the draft, and that because of the importance of the legislation the Budget Bureau thought that it would be desirable to take the matter up with the President. Mr. Vest stated that it was understood that the Budget Bureau was sending a draft of the bill to the three offices last Friday with a request for their comments not later than Wednesday, June 22.

Chairman McCabe also said that he talked with Senator Robertson by telephone concerning the legislation and that Senator Robertson felt the correct procedure had been followed in sending the bill to the Budget Bureau and had stated he would be glad to have the bill sent to him within the next few days but he could not start hearings on it until early in July. Chairman McCabe added that in accordance with the understanding at the meeting on June 14, copies of the bill were sent on June 17 to all Federal Reserve Banks and to representatives of the interested groups with which it had been discussed.

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There followed a discussion of the procedure that might be followed in connection with the bill, and it was understood that Chairman McCabe would continue to do what he could to bring about the introduction of the bill and that he would report to the Board on the results of his further conversations during the next few days.

Reference was then made to a memorandum from the Division of Personnel Administration dated June 13, 1949, proposing changes in the Board's travel regulations effective July 1, 1949, along the lines established for Government departments operating on appropriated funds in the Travel Expense Act of 1949, Public Law 92.

Mr. Clayton stated that the Personnel Committee had considered the memorandum, that it recommended adoption of a per diem allowance of \$9.00 for members of the Board's staff and an allowance of 7 cents per mile for the use of privately owned automobiles which were the rates provided in the Travel Expense Act of 1949, and that Division heads be authorized to approve travel requests for use of private automobiles for persons for whom they were now authorized to approve travel by other means of transportation, with the understanding that all such travel authorized by division heads would be reported in the monthly report of travel submitted pursuant to the action of the Board at a meeting on November 19, 1948. He went on to say that no recommendation was made with respect to per diem for

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Board members which formerly had been \$10.00 compared with the \$6.00 per diem of the Government.

There followed a discussion, during which it was suggested that in view of present costs of travel and in view of the fact that per diem for Board members had been \$10.00 at the time Government per diem was \$6.00, there was justification for setting per diem for Board members somewhat higher than the present figure and that a rate of \$12.00 might be set for Board members.

Following the discussion, upon motion by Mr. Clayton and by unanimous vote, paragraphs 1, 2, 3, and 4 of the Board's travel regulations were amended to read as follows; effective July 1, 1949:

"1. Members of the Board shall be allowed either (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$12 or (b) their actual necessary travel expenses. The terms underscored are defined below. When actual necessary travel expenses are claimed, the items of expense shall be set forth in detail in the travel voucher which shall be supported by satisfactory receipts. Such expenses shall not be allowed when claimed in a lump sum. Members of the Board shall also be allowed reasonable expenses for telephone, telegraph, cable and radio service, and for miscellaneous expenses, including stenographic and other clerical service, when such expenditures are necessary for the transaction of official business while in a travel status.

"2. Heads or assistant heads of divisions of the Board's Washington staff (who shall include Assistants to the Chairman or the Board), the Federal Reserve Bank auditors who audit the accounts of the Board, and any other persons traveling on official business of the Board upon specific authorization of the Board's Personnel Committee, shall be allowed either (a) actual necessary transportation

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"expenses and a per diem in lieu of subsistence not to exceed \$9.00 or (b) upon specific authorization of the Board's Personnel Committee their actual necessary travel expenses when the travel voucher is supported by satisfactory receipts.

"3. All other persons traveling on official business of the Board pursuant to proper authorizations shall be allowed actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$9.00.

"4. For the purposes of paragraphs 1, 2, and 3 above, the term actual necessary transportation expenses includes the cost of all necessary official travel by railroad, airline, steamboat, bus, streetcar, taxicab, automobile, and other means of conveyance, together with minimum priced single first-class accommodations in staterooms on vessels or one standard lower berth or single seat in a sleeping or chair car, except that persons referred to in paragraphs 1 and 2 above may be allowed any Pullman accommodations obtainable in connection with a single fare, and that, when a single bedroom is not available, any member of the Board may be allowed the extra railroad fare necessary to enable him to obtain Pullman accommodations, the cost of which does not exceed the cost of a compartment, as well as the extra cost of such accommodations. This item also includes reasonable expenditures for the ordinary incidentals to transportation which are not covered by the definition of per diem in lieu of subsistence, such as cost of baggage transfer; official telegraph, telephone, radio and cable messages relating to transportation; steamer chairs and steamer rugs; and the usual taxicab, streetcar or bus fares from station or wharf or other terminal to place of abode or place of business and from place of abode or place of business to station or wharf or other terminal while in a travel status. When using his own automobile in official travel, the traveler may be allowed mileage at a rate not to exceed 7¢ per mile in lieu of actual operating expenses.

"When savings can be effected by the purchase of round trip or special rate tickets, they shall be obtained.

"Extra expense incurred by persons referred to in paragraphs 2 and 3 above by reason of travel on extra fare trains, or unusual means of conveyance, will be allowed only when the travel voucher is accompanied by a satisfactory showing of the necessity therefor, or that the cost thereof, less the amount of subsistence allowance saved by more expeditious travel and the amount of salary of the

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"traveler for the time thus saved, does not exceed the cost of rail or steamer transportation and Pullman or stateroom fare between the points of travel."

Mr. Vardaman referred to a news item that appeared in the New York Sun under date of June 13, 1949, reporting an interview with Chairman Maybank of the Senate Banking and Currency Committee concerning the bill to establish a National Monetary Commission, S.1559, on which the Board submitted a favorable report under date of May 18, 1949. At Mr. Vardaman's request, Mr. Carpenter read a copy of the news report which stated that the President was reported by Senator Maybank to be opposed at this time to the Senate-approved bill but that he favored the idea of such a study and believed it should be put off until after the Treasury and Federal Reserve Board had completed a similar study. Mr. Vardaman outlined his interest in the creation of the Commission and suggested that steps be taken to make it clear that the System was not undertaking any study of the kind referred to in the press article.

Chairman McCabe said he could clarify the matter with Senator Maybank when he talked with him later this week.

In the course of a discussion, Mr. Eccles suggested that, for reasons which he outlined, the staff be requested to prepare a statement of reasons for the establishment of a National Monetary Commission with a view to having such a statement available for submission to Senator Maybank and others.

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Chairman McCabe suggested that the statement be in the form of a letter to Chairman Spence of the House Banking and Currency Committee, that it take a strong position favoring the study contemplated in S.1559, and that he be authorized to use the draft in such discussions as he might have concerning the matter and to report back to the Board the results of his conversations.

Mr. Vardaman stated that since 1946 he had been advocating the formation of a commission for the purpose of making the study proposed and that he felt these suggestions would be constructive.

Thereupon, the foregoing suggestions were approved unanimously, with the understanding that Messrs. Riefler and Young and such other members of the staff as they might ask would prepare a draft of letter to be used by the Chairman in the manner suggested above.

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, approving the purchase of real estate by that bank as requested in a letter from him dated June 10, 1949.

The letter was discussed briefly and upon motion by Mr. Vardaman, approved unanimously in the following form:

"This refers to your letter of June 10 regarding the situation and negotiations with respect to the Allen Estate lot which your bank has had under lease and which forms part of the property upon which the bank building

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"has been erected. You have advised that the directors have authorized the purchase of the property for \$140,000, subject to certain conditions and to the approval of the Board of Governors. In accordance with your request, the Board of Governors approves execution by your bank of an agreement providing for the purchase of the property for \$140,000 under the arrangements outlined in your letter."

Reference was then made to a memorandum from Mr. Young, dated June 15, 1949, which had been circulated before this meeting, with respect to a proposed mission to Guatemala being arranged by the Federal Reserve Bank of New York in response to a request from the Central Bank of Guatemala. The memorandum stated that Mr. Ernest C. Olson, an economist in the Latin-American Section of the Division of Research and Statistics, had been asked to serve as a member of the mission for the period July 5 - August 1, 1949, that the Central Bank of Guatemala would pay his travel and subsistence expenses, and that it was recommended that the Board approve his participation in the mission and pay his salary while so engaged. Mr. Carpenter read a memorandum from Mr. Vardaman dated June 20, 1949, which stated that he had no objection to the proposed mission but that he felt it should be cleared with the American Ambassador to Guatemala before it was authorized.

In a discussion of the memorandum, question was raised as to whether the Federal Reserve Bank of New York was following the established procedure of clearing proposed foreign missions with the Board before indicating that such missions would be arranged.

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In the course of the discussion, it was suggested that the entire matter of foreign missions should be reviewed at a meeting at which Mr. Szymczak is present with a view to making certain that the procedure contemplated by the Board in its letter to Mr. Sproul on May 10, 1945, is operating satisfactorily. It was also suggested that the proposed mission to Guatemala and Mr. Olson's participation in it be approved, on condition that the State Department obtain prior approval of the mission from Ambassador Patterson.

Upon motion by Mr. Vardaman, the foregoing suggestions were approved unanimously.

Secretary's Note: On June 28 Mr. Corliss of the Division of Financial Affairs of the Department of State called on the telephone to say that a cable from Ambassador Patterson indicated that the American Embassy in Guatemala had no objection to the proposed mission.

Reference was then made to a memorandum from Mr. Draper dated June 10, 1949, recommending that the Board authorize the purchase of a used 1947 Cadillac limousine for \$3,475. The memorandum stated that it was believed desirable to purchase such an automobile as an addition to present Board cars so that an additional car would be available to take care of needs which might arise when one of the automobiles was in the shop or during rush periods.

Mr. Eccles stated that he was opposed to the purchase of an additional car, that the need for economy in operations of Government was being emphasized, that there had been criticism of the use

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of automobiles from time to time, and that he felt that the present fleet of cars consisting of three passenger cars and a station wagon was adequate to meet the Board's needs except in rare instances at which times it would be better business to hire additional cars from outside. He thought the addition of another car would set a bad example for the Federal Reserve Banks and would provide more automobile service than was available in other Government agencies and that the Board was not under obligation to furnish transportation for all individuals and groups coming to the Board's building.

During a further discussion of the matter, Mr. Draper stated that it was not contemplated that an additional chauffeur would be employed, that the purchase of the additional car at this time was recommended for the purpose of giving added carrying space, and that the retention of a smaller car which was now seven years old would seem to be desirable since the turn-in value was small and the car would be available for stand-by purposes.

Mr. Eccles responded that he would not object to turning in one of the present cars and replacing it with a new car if that seemed necessary because of the condition of the older car nor would he object to the purchase of an additional car and retention of the old car so long as no additional chauffeur was employed and the old car was kept only for emergency use or when other cars were in the shop. He said he would object to adding an additional car which would be available for use on the basis outlined in Mr. Draper's memorandum because it would add to the automobile expense of the Board and he did not think such

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additional expense was justified.

Mr. Draper moved that the Board authorize the purchase of the used Cadillac on the basis outlined in his memorandum, with the understanding that this would not result in employment of any additional chauffeurs and there would be no change in the policy of the Board with respect to the purposes for which the automobiles would be used.

This motion was put by the Chair and carried, Mr. Eccles voting "no" for the reasons stated by him during the discussion.

At this point, Mr. Bethea withdrew from the meeting.

Before this meeting there had been sent to all members of the Board a draft of letter to the Presidents of all Federal Reserve Banks with respect to Section 13b activities under the Federal Reserve Act.

Following a discussion, upon motion by Mr. Draper, the letter was approved in the following form:

"At the last meeting of the Conference of Presidents of the Federal Reserve Banks on May 2, 1949, it was indicated that, because of prevailing inflationary pressures, the Federal Reserve Banks generally had been following a restrictive policy in the past few years with respect to the making of loans and commitments under section 13b of the Federal Reserve Act. It was thought, however, that some modification of this policy might soon become necessary.

"In view of the changes which have recently developed in the economic situation, the Board believes that it would now be desirable to review our loan policy and reexamine our statutory responsibility. If a study of the monetary and credit situation is undertaken pursuant to authority granted by the Congress, one of the areas of investigation undoubtedly will be our record on 13b loans, and since there is a statutory obligation on our part we feel our current as well as our past record of performance should be in accordance with the spirit and intent of the law. Under changed conditions many businesses may now or in the near

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"future find that they are unable to obtain necessary working capital from the usual credit sources and it is felt that increased emphasis should be placed upon the authority of the Reserve Banks under existing law to make industrial loans and commitments in such circumstances.

"As you know, loans under section 13b are made only if banking loan accommodations are not available to the borrower. Quite often the Federal Reserve participates with the borrower's local bank in making the loan. Since many financing institutions and business concerns may not be entirely familiar with the facilities afforded by the Federal Reserve Banks for assisting in the financing of business enterprises, it is suggested that you take such steps as you consider appropriate in order to acquaint them with the nature of such facilities, either by circularizing financing institutions in your District, or through discussions by the officers of your bank with bankers and businessmen as occasion arises, or by other means. An expansion in 13b operations may require some additions to the staffs of the Reserve Banks but the Presidents indicated at the last President's Conference that they were prepared to make such additions as promptly as they became necessary.

"In this connection, attention is called to the statement in the foreword to the Board's Regulation S that the regulation prescribes no restrictions beyond those required by the law itself and that technical definitions of terms have been avoided lest they have the effect of restricting or hampering the operations of the Reserve Banks under the statute. It is the Board's view that, in the light of present credit tendencies, the Reserve Banks should give sympathetic consideration to all applications filed with them under section 13b and that every reasonable effort should be made to provide financial assistance whenever it may properly be afforded in the circumstances of each case.

Mr. Horbett, Assistant Director of the Division of Bank Operations, joined the meeting at this time.

Reference was made to the probable expiration on June 30, 1949, of the Board's authority to prescribe supplemental reserve requirements for member banks and to the question whether action should be taken by the Board at this time to reduce member bank reserves in an amount greater than the reduction that would result

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from the discontinuance of the supplemental reserve requirements.

In this connection, Chairman McCabe stated that he and Mr. Sproul, Vice Chairman of the Federal Open Market Committee, were meeting with Secretary of the Treasury Snyder later this afternoon for the purpose of discussing open market and Treasury financing policies and that before that meeting he would like to have the views of the members of the Board with respect to the program that might be followed in connection with reserve requirements and discount rates in relation to open market and Treasury financing policies. In particular, he was interested in knowing whether, if the Treasury would be inclined to concur in a change in open market policy which would discontinue support of Treasury bills and certificates and which would provide only for the maintenance of orderly market conditions in this area of the market and if a public announcement to that effect were agreed upon, the Board would be willing to give the Treasury assurance that such a change in policy would not result in an increase in rates during a period of declining business activity like the present and that the Board would take such action, including reductions in reserve requirements and in discount rates, as might be necessary to prevent an increase in short-term interest rates.

During the ensuing discussion, Chairman McCabe referred to a letter dated June 17, 1949, from Mr. Stevens, Chairman of the Federal Reserve Bank of New York, and at his request, Mr. Carpenter read

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portions of the letter which reviewed the economic situation and outlined monetary and credit policies that the directors of the Federal Reserve Bank of New York believed to be desirable.

At the conclusion of the discussion, it was agreed that Chairman McCabe might say to the Secretary of the Treasury that interest rates should not be permitted to rise in a period like the present and if it were decided to discontinue the support policy on bills and certificates and engage in open market operations in that area of the market only to the extent necessary to maintain orderly market conditions, the System would take such action to reduce reserve requirements or the discount rate or to purchase securities in the market (or a combination of all three) as might be necessary to prevent rates from rising, particularly during refunding and tax payment periods.

In anticipation of the discussion of credit policy at this meeting, Messrs. Riefler, Young, and Youngdahl, Chief of the Banking Section of the Division of Research and Statistics, had prepared a memorandum under date of June 21, 1949, suggesting actions that might be taken by the System to combat deflation. Copies of the memorandum were distributed at this point, and it was understood that it would be discussed at a further session this afternoon.

The meeting then recessed and reconvened at 2:00 p.m. with the same attendance as at the close of the morning session.

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Chairman McCabe referred to the discussion at the meeting on June 3, 1949, and stated that he had a telephone conversation today with Mr. Aldrich, Chairman of the Board of the Chase Bank, New York, and the latter requested that he be given an opportunity to meet with such members of the Board as were available on June 28, 1949, at 2:00 p.m. for the purpose of discussing the proposed purchase of American Express Company by the Chase Bank.

Mr. Vest stated that pursuant to the understanding at the meeting on June 3, he called Mr. Eugene Southall, Counsel of the Chase Bank, on the telephone and informed him of the Board's views as expressed at that meeting, that the information requested with respect to the foreign and domestic business of American Express Company had not yet been received, and that it was difficult to express a view as to what the Board's position with respect to acquisition of American Express Company by the Chase Bank would be until such information had been received and analyzed.

It was suggested that Mr. Aldrich be informed that the Board would be glad to meet with him but that it would like to receive the factual information requested by Mr. Vest in his telephone conversation with Counsel for the Chase Bank in time to permit a study of the information before the meeting.

The foregoing suggestion was approved unanimously.

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At Chairman McCabe's request, Mr. Carpenter read the memorandum prepared by Messrs. Riefler, Young, and Youngdahl under date of June 21 which suggested a program of credit policy for deflation, copies of which were distributed at the morning session. The memorandum recommended that in view of the current recession in economic activity and the prospects that such recession might continue and deepen during coming months, consideration be given at this time to:

1. Sharp curtailment and early discontinuance of sales of long-term Government bonds except on an orderly market basis.
2. Prompt reduction of reserve requirements for each class of member bank, inclusive of the temporary requirement now in effect, by say 3 percentage points against demand deposits and 1 percentage point against time deposits. This would increase the free reserves of member banks by 2.6 billion dollars, distributed as follows:

Central reserve city banks.....	\$700 million
Reserve city banks	1,000 "
Country banks	900 "

3. Firm maintenance of the System's present total holdings of bills and certificates.
4. Reduction of discount rates to say 1-1/4 per cent.

Statements amplifying the reasons for the suggested program were made by Messrs. Riefler and Young and in the ensuing informal discussion of future System credit policy, Mr. Eccles suggested that credit policy was of relatively minor importance as an instrument to combat recession and that no policy which the System might undertake

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in that direction would be successful in the absence of the adoption by the Government of consistent policies in other fields and of steps which would increase purchasing power and otherwise encourage consumer demand. Each of the members of the Board expressed informally his views as to what System credit policy might include, and it was agreed that no action would be taken until after Messrs. McCabe and Sproul talked with Secretary of the Treasury Snyder this afternoon, and that it would be desirable to call a meeting of the Federal Open Market Committee or its executive committee for the purpose of considering System open market policy in the light of changing conditions and the conversations with Secretary Snyder.

At this point Messrs. Riefler, Leonard, Vest, Young, and Horbett 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 June 20, 1949, were approved unanimously.

Memorandum dated June 14, 1949, from Mr. Townsend, Solicitor of the Board, recommending a change in the title of Mr. G. Howland Chase from attorney in the Office of the Solicitor to Assistant Solicitor, an official position, and also recommending an increase in his basic salary from \$8,808.75 to \$10,000 per annum, effective June 26, 1949.

Approved unanimously.

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Memorandum dated June 21, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending the appointment of Miss Joy W. Lord as a clerk in that Division on a temporary indefinite basis, with basic salary at the rate of \$2,284 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated June 21, 1949, from Mr. Johnson, Personnel Officer, recommending an increase in the basic salary of Nancy L. Chelberg, a clerk-stenographer in the Division of Personnel Administration, from \$2,799.24 to \$2,874.48 per annum, effective June 26, 1949.

Approved unanimously.

Memorandum dated June 17, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the appointment of Raymond Lee Watkins, a cafeteria helper in that Division, be extended on a permanent basis, with an increase in basic salary from \$2,020 to \$2,086 per annum, effective June 25, 1949.

Approved unanimously.

Telegram to Mr. Latham, Vice President of the Federal Reserve Bank of Boston, reading as follows:

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"Retel June 20, 1949. Board approves designation of Robert B. Higgins as a special assistant examiner for the Federal Reserve Bank of Boston."

Approved unanimously.

Letter to Mr. Wilgus, Assistant Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with your letter of June 16, 1949, the Board of Governors approves the payment of salary to Joseph A. Costello, Traffic Clerk, Department of Collections, at the rate of \$4118 per year, which is in excess of the maximum of the grade in which his job is classified."

Approved unanimously.

Letter to Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of June 16, 1949, the Board approves the designation of Charles P. Kahler as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of June 17, 1949, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of San Francisco:

Armand A. Pascual
John H. Gilmour
H. H. Emmons
H. L. Edwards
A. L. Lambert

L. L. Lee
T. H. Merriam
M. C. Petersen
P. W. Van Der Like

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"Appropriate notations have been made in the Board's records of the names reported as deletions."

Approved unanimously.

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

"In view of the recommendation contained in your letter of June 16, 1949, the Board of Governors extends to August 1, 1949, the time within which the 'Citizens State Bank & Trust Company', Kilgore, Texas, may accomplish membership."

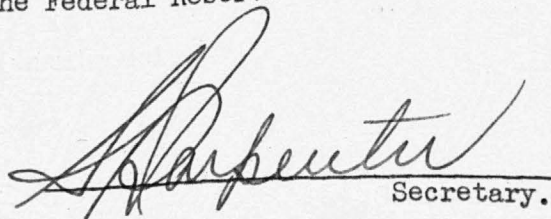
Approved unanimously.

Letter to Holtzmann, Wise, Shepard & Kelly, 30 Broad Street, New York 4, N. Y., reading as follows:

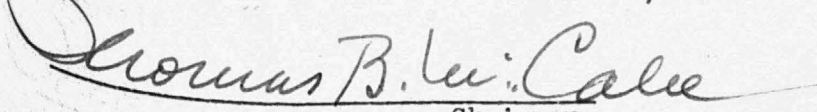
"This refers to your letter of May 24, 1949, transmitted through the Federal Reserve Bank of New York, enclosing an application on Form 150 for approval and reservation of the title 'International Funding Corporation for Israel' for a corporation proposed to be organized under the provisions of section 25(a) of the Federal Reserve Act.

"As requested in the application, the Board will reserve the title 'International Funding Corporation for Israel' for a period of 30 days from the date of this letter. However, the Board is postponing action with respect to approval of the title, awaiting more definite information concerning the proposed corporation which will need to be developed if further steps are taken to organize the corporation and organization papers are filed with the Board."

Approved unanimously, for transmission through the Federal Reserve Bank of New York.


Secretary.

Approved:


Chairman.