

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 23, 1949.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 22, 1949, were approved unanimously.

Memorandum dated June 22, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Louise D. Snowden, a stenographer in that Division, be accepted, to be effective, in accordance with her request, at the close of business June 24, 1949.

Approved unanimously.

Letter to Mr. Shepherd, Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of June 21, 1949, the Board of Governors approves the appointment of Mr. J. Gillette Turner as Alternate Assistant Federal Reserve Agent at his present salary of \$3,240 per year, to succeed Mr. Beverley P. Higgason.

"This approval is given with the understanding that Mr. Turner will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for

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"the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"It is noted from your letter that Mr. Turner's appointment will become effective when he executes the usual oath of office, which will be forwarded to the Board of Governors."

Approved unanimously.

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

"In accordance with the request contained in your letter dated June 22, 1949, and received on that date, the Board approves the designation of John E. Mallory, Jr., as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

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

"The Board of Governors notes from your letter of June 16, 1949, that the monthly retainer fee of Dr. John M. Schmoele, staff physician at the Los Angeles Branch, has been increased from \$250 to \$300 effective July 1, 1949."

Approved unanimously.

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

"Reference is made to your letter of June 4, 1949, relating to the commitment made by Inland Empire Bank, Umatilla, Oregon, to the FDIC that:

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"For a period of five years subsequent to the effective date of deposit insurance capital funds will be maintained in an amount sufficient to provide a capital ratio at least equal to the national capital average."

"The Inland Empire Bank opened for business as a member bank on March 24, 1948. Since the bank had only \$25,000 capital, it was necessary that it be entitled to the benefits of deposit insurance in order to be eligible for membership. Approval by the FDIC was conditioned in part upon the foregoing agreement and in its letter approving the bank's application for membership the Board stated that as a member of the Federal Reserve System the bank would be expected to comply with this and other commitments made to the FDIC.

"It is understood that the term 'national capital average' used in the agreement was intended to refer to the national average ratio of capital funds to total assets. At the end of 1948 and on March 21, 1949, when the bank was examined by examiners for your bank, the ratio of the capital funds of the Inland Empire Bank to its total assets was below the national average, although the ratio of its capital funds to risk assets was above the national average. In correspondence with your bank, the member bank has requested that it not be required to increase its capital at this time, calling attention to the considerable fluctuation in deposits that it has experienced and the fact that the construction of the McNary Dam should result in a large volume of deposits which may not be permanent.

"It is noted that you suggest that the bank be informed that maintenance of a ratio of total capital accounts to risk assets which is equal to the average ratio for all member banks will be considered satisfactory compliance with the agreement with respect to maintenance of capital. It should be borne in mind, however, that adequacy of capital is not measurable by any one ratio and that so-called risk asset ratio is most valuable as an indicator of the necessity for more searching consideration of other factors. In any event, it is not felt that maintenance of such a ratio on par with the national average would, in all circumstances, be satisfactory in the peculiar position of the subject bank, particularly if its deposit liabilities are, as indicated, much more volatile than those of the average bank.

"The agreement in question was made with the FDIC and therefore its terms are not subject to modification by the

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"Board. However, in practice, the administration of such agreements is left to the Federal Reserve System when the banks to which they are applicable become members of the System. It is believed that reasonable discretion should be exercised in the administration of such agreements and that rigid compliance with their precise terms need not be insisted upon where there is substantial compliance with their purposes. In administering the agreement concerning capital in this case, it would seem appropriate to take into consideration much the same factors as are considered in connection with the standard condition of membership relating to capital.

"In a letter to you concerning the application of Inland Empire Bank for membership, the supervising examiner for the FDIC explained the requirement concerning capital as follows:

'Our investigation disclosed it was practically impossible to determine with any degree of accuracy the future deposit potentialities of the local community which is in the throes of large new developments. Accordingly, it was considered advisable that due provision should be made for the supplying of a still further amount of capital in case future circumstances warrant such action.'

"At the end of its first year in business, the member bank's deposit volume was about that which was expected when the bank was admitted to membership, and, to a considerable degree, the difference between its capital ratio and the national average resulted from unprofitable operations in getting started in business. On the other hand, the information submitted clearly indicates a steady increase in the bank's deposits and it is apparent that, as envisioned by the FDIC, the new developments in the area may result in a deposit volume substantially out of line with the bank's capital structure. It is clear, therefore, that the adequacy of the bank's capital must be followed unusually closely and that increases may become essential. However, the Board does not consider it necessary for you to insist upon an increase in the bank's capital at this time."

Approved unanimously.

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

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"Reference is made to your letter of June 8, 1949, with enclosures, relating to the matter of adequate fidelity insurance coverage and, particularly, the situation existing in the Ninth Federal Deposit Insurance District which consists of the States of Minnesota, Montana, North Dakota and South Dakota, all within the Ninth Federal Reserve District.

"The Board of Governors is in agreement with the view that all banks should provide adequate amounts of fidelity insurance coverage and it is believed that the intensified efforts of the Federal Reserve System to obtain action on the part of State member banks to this end have been concurrent with those of the FDIC. It is felt that the situation has been much improved as a result of such efforts.

"In a general letter addressed to the President of each of the Federal Reserve Banks on November 10, 1947, the Board called attention to the statutory authority of the FDIC, contained in section 12B(v)(6) of the Federal Reserve Act, to procure fidelity coverage, if necessary, and assess the cost against any insured bank that refuses to provide such protection. It is understood that the Reserve Banks have found reference to this authority helpful in persuading some banks to provide coverage.

"As you probably know, however, the laws of the States of Minnesota and South Dakota provide that the amount of fidelity coverage to be carried by State banks therein may be fixed by the respective Bank Commissioners. Such requirements are below the minimum you have in mind but their status under State laws gives some basis for resistance to the idea of carrying an amount greater than that required by the Commissioner. It would seem desirable, if possible, to elicit the cooperation of State authorities. Nevertheless, it appears that the Federal Reserve Bank of Minneapolis has been successful in obtaining favorable action by a number of banks and it is evident from our information that it has not relaxed its efforts. In this connection, the Board is informed that the following nine State member banks, listed by you as having less than the minimum coverage recommended by the ABA, now have the minimum or better coverage:

Root River State Bank, Chatfield, Minnesota  
 Farmers State Bank of Madelia, Minnesota  
 First State Bank of Rushmore, Minnesota  
 State Bank of Springfield, Minnesota  
 Clarks Fork Valley Bank of Fromberg, Montana  
 First State Bank of Richey, Montana

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"Blackpipe State Bank, Martin, South Dakota  
 Citizens Bank of Mobridge, South Dakota  
 First State Bank of Pierpont, South Dakota

"The Board is advised, also, that the following banks, two of which were listed as having less than minimum coverage, now have coverage equal to or exceeding the 'Fair' amount recommended by the ABA:

Welcome State Bank, Welcome, Minnesota  
 Citizens Bank of Montana, Havre, Montana  
 Farmers and Stockmens Bank of Valier, Montana  
 Lake County Bank, St. Ignatius, Montana  
 Security Bank, Webster, South Dakota

"In accordance with your suggestion, a copy of your letter is being forwarded to the Federal Reserve Bank of Minneapolis together with a copy of this letter. It is felt that you may be assured of the continued interest and activity of the Reserve Bank."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has considered the recommendation contained in your letter of June 11 and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Fishermen and Merchants Bank, San Pedro, California, to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date of its admission to membership.

"Please advise the member banks of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Memorandum dated June 10, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the short history of Regulations T and U prepared by Dr. Parry

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be referred to the System Banking and Credit Policy Committee for review and suggestions and also that authorization be given for circulation of the manuscript of the history to each Federal Reserve Bank for the information of its staff and for such comment and suggestions as the Banks' staffs may wish to make.

Approved unanimously.

Telegrams to the Presidents of all Federal Reserve Banks, reading as follows:

"Board of Governors approves payment of regular semi-annual dividend for period ending June 30, 1949."

Approved unanimously.

Letter to the Honorable Burnet R. Maybank, Chairman of the Committee on Banking and Currency, United States Senate, reading as follows:

"Receipt is acknowledged of Mr. McMurray's letter of June 17, 1949, requesting the Board's opinion concerning S.2094, a bill to increase the maximum amount insured by the Federal Deposit Insurance Corporation for any one depositor in an insured bank from \$5,000 to \$10,000.

"In its letter to you dated March 29, 1949, concerning a similar bill, S.80, which would increase the maximum amount insured from \$5,000 to \$15,000, the Board expressed the view that a change in deposit insurance coverage should not be considered without due regard for closely related questions with respect to the reduction or elimination of assessments on insured banks and the revision of the basis for such assessments.

"As stated in that letter, the Board believes that the situation now calls for a re-appraisal of the assessments and insurance coverage of the Federal Deposit Insurance Corporation and, to that end, it has instituted a careful study of this subject. This work has proceeded as ex-

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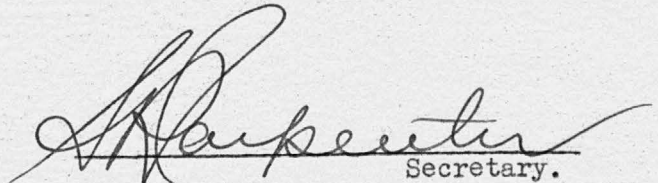
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peditionously as practicable but has not yet been completed, and the Board feels that it would be preferable for it to complete its study of this matter before undertaking to comment upon S.2094."

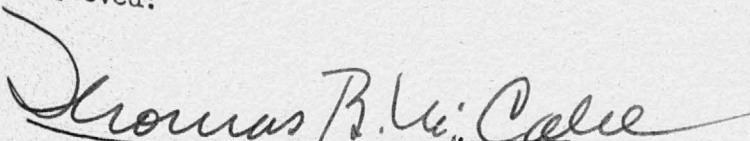
Approved unanimously.

Memorandum dated June 22, 1949, from Mr. Carpenter, Secretary of the Board, recommending that the Books and Subscriptions item of the Budget of the Office of the Secretary be increased by \$35 to cover necessary expenditures for the remainder of the current year.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.