

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 12, 1949. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.  
Mr. Draper  
Mr. Vardaman  
Mr. Clayton

Mr. Carpenter, Secretary  
Mr. Hammond, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Vest, General Counsel  
Mr. Thomas, Director, Division of Research and Statistics  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Millard, Director, Division of Examinations

There were presented telegrams to the Federal Reserve Banks of Boston, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas stating that the Board approves the establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on August 11, 1949, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to letters sent under date of August 8, 1949, by Mr. A. C. Hughes, President of the Monterey County Trust and Savings Bank, Salinas, California, to each of the members of the

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Board (except Mr. Clayton) and to Mr. Riefler, complaining of the action of the Comptroller of the Currency in granting permission to Bank of America National Trust and Savings Association, to transfer a branch of that bank from Camp Roberts, an abandoned Army post, to Gonzales, California, where the Monterey Trust Company also operates a branch. The letter stated that the Board's consideration and reply would be greatly appreciated. A letter had also been received by the Chairman's office under date of August 10, 1949, from Congressman Ernest K. Bramblett inquiring as to the status of the matter.

During discussions before this meeting of the replies to be made by the Board to these letters, Mr. Clayton called Congressman Bramblett to direct his attention to the fact that permission for the establishment of domestic branches of national banks was within the exclusive jurisdiction of the Comptroller of the Currency, and Mr. Bramblett stated that he would take the matter up directly with the Comptroller of the Currency. Mr. Clayton also called Mr. Folger, Chief National Bank Examiner, who confirmed the fact that permission for removal of the branch to Gonzales had been granted. Following these conversations, drafts of replies had been prepared for consideration at this meeting of the Board with the thought that copies of the replies might be sent to the Comptroller of the Currency for his information.

In the discussion at this meeting of the drafts of replies,

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reference was made to the fact that in the consideration by the Comptroller of the Currency of applications from Bank of America to establish branches, the Comptroller of the Currency was not following the procedure agreed upon by the three Federal Bank Supervisory Agencies under which, whenever an application is made to any one of the three agencies for establishment of a branch, that agency checks informally with the other two to see if there is any objection to authorizing the branch.

During the discussion, suggestion was made that (1) that in its letter to the Comptroller of the Currency sending copies of the reply to Messrs. Hughes and Bramblett, the Board should reiterate the statement contained in its letter of August 23, 1948, to the Comptroller of the Currency in which the position was taken that until the Clayton Act proceeding against Transamerica was disposed of, it would be inconsistent for any Federal agency to approve further expansion of the Transamerica group by any method, and (2) that a copy of the letter to the Comptroller of the Currency be sent to Mr. Hughes for his confidential information.

This suggestion was approved unanimously, with the understanding that the proposed replies would be redrafted in accordance therewith and submitted to the Board for further consideration.

Before this meeting there had been sent to the members of the Board a memorandum dated August 8, 1949, from Mr. Vest in which

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reference was made to a visit to Chairman McCabe on August 5 by Mr. L. M. Giannini, President of the Bank of America National Trust and Savings Association, in connection with the Board's letter of May 16, 1949, with reference to the establishment by the Bank of America of three branches in Germany and the possible organization of an Edge Act corporation to handle the bank's international and foreign banking business. During the conference with the Chairman, Mr. Giannini raised the question whether the capital for the Edge Act corporation could be supplied by the bank, and Mr. Vest's memorandum stated that in the circumstances set forth therein, the Board might consider permitting the bank to supply the necessary capital which would be very inconsequential in amount in relation to the total capital of the bank.

Mr. Vest stated that in discussing the matter with Mr. Szymczak, who was now on vacation, the latter expressed the view that the capital should be supplied from outside the bank and Transamerica Corporation, that if that were not done the capital should be supplied by Transamerica, and that he would be reluctant to have the bank supply the necessary capital.

The members of the Board who were present, after considering the matter, felt that in view of the applicable provisions of law and other circumstances outlined in Mr. Vest's memorandum, the Board should interpose no objection to



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the capital for the Edge Act corporation being supplied by Bank of America, and in accordance with Mr. Giannini's request that he be informed of the Board's decision in the matter while he was still in the East, Mr. Vest was requested to call him by telephone and advise him accordingly.

In connection with the above matter, consideration was also given to a draft of reply prepared by the staff to the letter dated July 19, 1949, from Mr. Giannini commenting on the action of the Board in denying the Bank's applications for permission to establish three branches in Germany. The draft had been prepared with the thought that it would contain a statement of the position of the Board with respect to the source of the capital for the Edge Act corporation referred to above.

The reply was approved unanimously, as follows:

"Since receipt of your letter of July 19, 1949, relating to the applications filed by your bank for permission to establish branches in Bremen, Hamburg and Frankfurt-am-Main, Germany, Chairman McCabe has had a visit from you and, with members of the Board's staff, has discussed the matter with you. Also, you have been advised that the Board will interpose no objection to investment by the Bank of America N. T. & S. A. of a reasonable amount in the capital stock of an Edge Act corporation organized for the purpose of engaging in international or foreign banking.

As was indicated in the course of the discussion during your visit, the capital ratio figures used in the Board's letter of May 16, 1949, were based upon call reports of condition and these figures were used because they were taken from public information. In passing on the applications for the establishment of the German branches, consideration was given by the Board not only to these figures but to various

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"other factors bearing upon the adequacy of the capital of your bank and your letter contains no information not previously taken into account which warrants reconsideration of the applications. The Board reached its conclusion after thorough consideration of all the facts of the case and the applicable statutory provisions and it followed the same procedures as it would have followed in the case of an application from any other institution. There is no justification for the statement that there was either an unfair or improper disposition of these applications or for any implication that the Board was interested in placing your bank in a secondary position in relation to its competitors.

"In the circumstances, it does not seem necessary to reply to your letter in detail although, as indicated above, it does contain some statements and implications to which the Board would take exception. You may rest assured that any applications or communications the Board may receive from you are given the same careful consideration and accorded the same unbiased disposition as applications or communications from any other source."

At this point Mr. Dembitz entered the meeting.

Mr. Eccles stated that a letter dated August 10, 1949, had been received from Senator Tobey urging, at the instance of Mr. Littell, a local attorney, that the Board extend until December the assignment of Mr. John Exter, an economist in the Board's Division of Research and Statistics, as adviser to the Government of Ceylon in connection with the establishment in that country of a central bank.

A suggested draft of reply to the letter had been prepared and was read at this meeting, and it was agreed unanimously that it should be revised along the lines of the discussion and resubmitted to the Board for further consideration.

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At the meeting of the Board on August 5, 1949, approval was given to an arrangement under which the assignment of Mr. David L. Grove, an economist in the Board's Division of Research and Statistics, as adviser to the Central Bank of the Philippines would be extended for a period not to exceed three months from August 26, 1949, with the understanding that the Board would attempt to find a successor for Mr. Grove and that he would be released as soon as possible after the arrival of the new man in Manila. It was subsequently ascertained by cable correspondence that Mr. Cuaderno, Governor of the Bank, did not wish to have a successor appointed. Accordingly, the following cable to Governor Cuaderno had been prepared for consideration by the Board:

"Following discussion with Ambassador Cowen and cables with Grove, who we understand consulted with you, Board has formally reconsidered your July 6 request for extension Grove's leave beyond August 26 and has decided to grant extension for period not exceeding three months. However Board trusts you will arrange termination Grove's services in Manila earlier if possible because urgently needed here. Board members will welcome discussion Philippine Central Bank progress with you during your forthcoming Washington visit."

Mr. Vardaman stated that while he was opposed in principle to any further extension of Mr. Grove's assignment, he would interpose no objection in view of the position taken by Ambassador Cowen regarding the urgent need of Mr. Grove's services.

Thereupon, the proposed cable to

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Governor Cuaderno was approved unanimously.

Messrs. Baumann and Cherry entered the meeting at this point, and Mr. Dembitz withdrew.

Mr. Eccles referred to H. R. 1689, a bill to increase rates of compensation of the heads and assistant heads of the executive departments and independent agencies, which passed the House of Representatives on July 8, 1949, and had been reported to the Senate with certain amendments on August 9, 1949. He pointed out that the salaries of members of the Board would be fixed by the bill at \$16,000, while the salaries of Cabinet members would be fixed at \$25,000, under secretaries at \$20,000, and certain other department and agency officers from \$17,500 to \$20,000. He outlined the discussions which he had had with respect to the bill, referred to letters which had been sent by Chairman McCabe to Chairman Maybank of the Senate Banking and Currency Committee under dates of March 14, 1949, and August 5, 1949, and to Senator Robertson on the same dates, and raised for consideration what further steps should be taken by the Board in connection with the matter, having in mind that if the bill were approved in its present form, the salaries of members of the Board would be greatly reduced in relation to many other salaries in the Government.

Various actions that might be taken were discussed, and upon motion by Mr. Vardaman and by unanimous vote, the matter was referred to Mr. Eccles with power to



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act, with the understanding that he would inform Chairman McCabe of developments in connection with it.

Mr. Riefler stated that he had had a telephone call from Senator Robertson in which he asked for an informal expression of the Board's views on a suggestion that the bill authorizing national banks to convert into or merge with State banks be amended to permit a national bank to purchase the assets or merge another bank and to retain any branches of the latter bank regardless of when the branches were established or acquired and regardless of whether the branches could be established or acquired under State law.

Mr. Riefler had discussed the matter with Mr. Vest, and at this meeting the latter stated that it would appear that the proposed amendment would authorize a national bank by means of purchase or merger to engage in State-wide and even interstate branch banking regardless of the provisions of State law and, therefore, would be a departure from the policy of existing law under which national banks may establish branches only to the extent that the establishment of branches by State banks is expressly permitted by the laws of the State in which the national bank is located. Mr. Vest also stated that he understood that the Comptroller of the Currency had taken the position in connection with the amendment that it was piece-meal legislation and should be considered only as a part of an overall study of the problem of branch banking.

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The members of the Board agreed unanimously that Mr. Riefler should inform Senator Robertson that the Board would be opposed to the amendment and would send him a letter stating the reasons for its position.

Secretary's Note: The letter sent to Senator Robertson under date of August 15, 1949, in accordance with this action, was as follows:

"This refers to your conversations with Mr. Riefler concerning the question whether H. R. 1161, a bill to authorize national banks to convert into and consolidate with State banks, should be amended by adding a provision relating to national bank branches which was proposed by Representative Crawford when the bill was considered by the House.

"Under existing law, it is the general rule that a national bank cannot establish and operate new branches if the laws of the State in which the bank is located do not authorize State banks to do so. There is one exception, of little practical importance, which provides that where a State bank converts into or consolidates with a national bank or two national banks consolidate, any branches operated by the converting or consolidating banks which were established on or before February 25, 1927, may be retained without regard to State law. The proposed amendment would greatly broaden this exception by authorizing the retention of all branches in connection with conversions and consolidations without regard to the date of the establishment of the branches, and by authorizing the retention of branches of a bank where the bank's assets are purchased by a national bank.

"The proposed amendment would make it possible for national banks, through consolidations and purchases of assets, to establish branch systems without regard to the limitations prescribed by State law. Thus, for example, in a State which permits State banks to establish branches only in limited areas, such as the city, county, or banking district in which the head office is located, a national bank could establish a State-wide branch system by acquiring other banks which were operating branches.

"The Board questions the desirability of this amendment to the national bank branch laws. Moreover, the Board

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"believes that, if such an amendment is to receive consideration, it should not, in any event, be acted upon merely as an incidental matter in connection with H. R. 1161 but, instead, should be considered as a part of a thorough study of all of the statutory provisions governing branches of national banks."

At this point Messrs. Riefler, Vest, Thomas, Leonard, Millard, Baumann, and Cherry 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 August 5, 1949, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 8, 9, 10, and 11, 1949, were approved and the actions recorded therein were ratified unanimously.

Telegrams to Mr. Wilbur, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue limited voting permits, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Transamerica Corporation", San Francisco, California, entitling such organization to vote the stock which it owns or controls of the "First National Bank of Arizona, Phoenix", Phoenix, Arizona and "The Temple City National Bank", Temple City, California, and at any time prior to December 1, 1949, to increase the capital stock of such banks, to amend the articles of association of such banks to conform to articles recommended by the Comptroller of the Currency, and, in the case of the

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"First National Bank of Arizona, Phoenix", to authorize the absorption of such bank of the business of the Phoenix Savings Bank & Trust Company by statutory consolidation or otherwise. The telegram regarding the "First National Bank of Arizona, Phoenix" also stated that since Occidental Life Insurance Company, Premier Insurance Company, and Pacific National Fire Insurance Company are holding company affiliates of First National Bank of Arizona, the stock of that bank owned or controlled by such companies, and indirectly controlled by Transamerica Corporation, cannot be voted unless such companies obtain voting permits.

Approved unanimously.

Letter to Mr. V. C. Arnsperger, Executive Vice President, Encyclopaedia Britannica Films, Inc., Wilmette, Illinois, reading as follows:

"This refers to the proposed production by Encyclopaedia Britannica Films, Inc. of a motion picture on the purposes and functions of the Federal Reserve System, and particularly to your letter of July 28, 1949, to Mr. George B. Vest, General Counsel to the Board, and your telephone conversation of August 9 with Mr. Elliott Thurston, Assistant to the Board, in that regard.

"There are enclosed herewith two copies of an agreement both of which have been executed by the Board. We believe that the agreement reflects the substance of the understanding reached during your telephone conversation with Mr. Thurston on August 9, and we trust you will find it satisfactory. If the agreement meets with your approval, we would appreciate your executing both copies thereof and returning one executed copy to us.

"You are notified herewith that, for the purposes of the agreement, Mr. Elliott Thurston will be the Board's

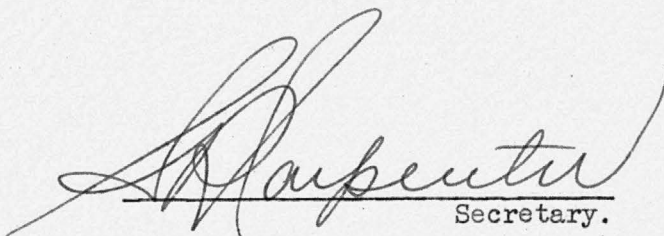


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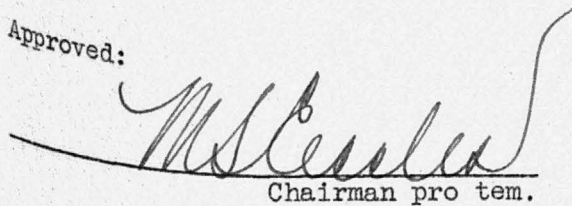
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"designated representative referred to therein."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman pro tem.