

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 13, 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. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Director, Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director, Division of Bank Operations
Mr. Millard, Director, Division of Examinations
Mr. Young, Associate Director, Division of Research and Statistics
Mr. Youngdahl, Chief, Banking Section, Division of Research and Statistics

In accordance with the understanding at the meetings on August 5, 1949, and September 6, 1949, there was a discussion of possible action on discount rates at the Federal Reserve Banks. During the discussion, it was suggested that in view of the improved outlook in the economic situation during the past two months and pending announcement of the Treasury October refunding, action might be deferred.

In this connection, there was a discussion of the special arrangement whereby authorized nonbank dealers in U. S. Government securities could sell Treasury short-term securities to the Federal Reserve

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Banks under a re-purchase agreement for the purpose of carrying them at a preferential rate, and Mr. Eccles suggested the desirability of establishing a preferential discount rate which would give member banks access to such credit on the same terms as authorized nonbank dealers now obtain. It was the consensus that while no change in discount rates should be made at this time, the question of a preferential discount rate should be studied and the matter should be kept on the docket for discussion of the Board from week to week in the light of conditions then prevailing.

Reference was made to a memorandum from the senior staff dated August 17, 1949, transmitting a study prepared by the Division of Research and Statistics in accordance with the action of the Board on March 11, 1949, with respect to changes that should be made in deposit insurance coverage and the base and rate for assessments for deposit insurance. Copies of the memorandum had been sent to each member of the Board on September 6, 1949.

Mr. Carpenter reviewed the background of the preparation of the memorandum, referring to a letter to Senator Maybank, Chairman of the Senate Banking and Currency Committee, dated March 29, 1949, prepared in response to his request for a report on S.80, a bill to increase the insurance protection of depositors in Federally insured banks from \$5,000 to \$15,000, in which it was stated that the Board had instituted a careful study with a view to placing itself

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in position to respond to any further inquiry that the Committee may wish to make.

He also stated that the memorandum from the Senior Staff made three recommendations, (1) that the present benefits of deposit insurance should be increased at this time and that it would favor an increase in deposit coverage to a level as high as from \$10,000 to \$25,000, (2) that the present assessment burden should be modified to provide a statutory formula which would relate the rate of assessment to average loss experience over the previous 10-year period and be geared to maintain a reserve fund of about 1% of total deposits of insured banks as a maximum fund, and (3) that changes in the assessment base which would effect some reduction in the assessment burden on insured banks not be adopted.

Some of the members of the Board stated that they had not yet been able to study the memorandum. During the discussion that followed, it was suggested that a position as to what should be done with respect to deposit insurance would have to be taken in connection with answering the questionnaire received from the subcommittee of the Joint Committee on the Economic Report under date of August 22, replies to which were to be sent to the Committee before October 15, 1949. The suggestion was also made that a copy of the report be sent to Chairman Harl of the Federal Deposit Insurance Corporation with a request for his comments on it and that copies be sent to the

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members of the Federal Advisory Council with a request for an expression of their views at the meeting of the Council with the Board on September 20, 1949.

Following this discussion, unanimous approval was given to the foregoing suggestion with the understanding that letters would be prepared and sent in the following form:

Letter From Chairman McCabe to Chairman Harl

"As you know, the Board has been asked by a subcommittee of the Joint Committee on the Economic Report to submit its views concerning what changes, if any, should be made in the laws and policies relating to Federal insurance on bank deposits. The Board has also been requested for its views from time to time with respect to the Federal Deposit Insurance program by the Banking and Currency Committees.

"To assist it in considering this question, the Board's staff has prepared the enclosed confidential memorandum which, however, has not yet been considered by the Board. The matter is now before the Board for consideration and in connection with the submission of its views to the Congress, the Board would greatly appreciate having the benefit of your comments upon the staff study.

"Since the Board is desirous of submitting its report to the subcommittee of the Joint Committee by October 1, 1949, it would welcome an expression of your views on the memorandum not later than Friday, September 23, 1949. We would be glad to have these submitted in writing, or if you should wish to do so, we would be happy to have you meet with the members of the Board for the purpose of discussing the memorandum in greater detail."

Letter to Members of the Federal Advisory Council

"It will be recalled that at the last meeting of the Federal Advisory Council and the Board there was a discussion of deposit insurance coverage and the rate and base of deposit insurance assessments. At that time it was

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"stated that the Board had instituted a careful study with a view to placing itself in a position to respond to further inquiries that the Senate Banking and Currency Committee might wish to make on this subject.

"The staff study has been completed and a memorandum setting forth the views of the staff is enclosed. The Board has not had an opportunity to discuss the study or to reach any conclusions with respect thereto but has asked that the memorandum be sent to the members of the Federal Advisory Council for their confidential information in connection with a further discussion of the matter with the Board at the forthcoming meeting, at which time the Board would be glad to have the current views of the Council concerning any changes that should be made in deposit insurance coverage and the rate and base of deposit insurance assessment.

"A similar letter is going forward by Air Mail to each of the members and Secretary of the Federal Advisory Council."

In taking this action, it was understood that copies of the study and the above letters would be sent to the Presidents of the Federal Reserve Banks for comment.

At this time Mr. Clayton withdrew from the meeting because he did not wish to be present at the time matters with respect to the Transamerica proceeding under the Clayton Act were discussed.

Mr. Carpenter read a memorandum from Mr. Townsend, Solicitor of the Board, dated September 8, 1949, as follows:

"As the Board is aware, on several occasions during the course of the hearings in the Transamerica case reference has been made by counsel for respondent to the subject of examination reports, both of the holding company and of the banks in the holding company group. Recently the Board reversed a policy of some years' standing and authorized the Hearing Officer to deliver to counsel

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"for Transamerica copies of the 1943 and 1946 reports of examination of Transamerica, minus the confidential sections of those reports. Of course the banks in the Transamerica group receive copies of the open section of the reports of examination of the various examining authorities. However, counsel has continued to insist upon the production of the confidential sections of the reports of the holding company, and has likewise requested access to the confidential sections of the reports of the various Transamerica banks, all on the general theory that access to such material by respondent's representatives is necessary in order to insure a fair trial.

"Without going into the merits of counsel's legal position on this subject, I am respectfully suggesting to the Board that it give further consideration to counsel's request that he be permitted to examine the confidential sections of the various reports of examination above referred to. Should the Board be favorably disposed to grant this request as to the reports of examination of the holding company and the state member banks in the Transamerica group, then it may be that the Board could in that event obtain formal permission or denial from the Comptroller's Office and the Federal Deposit Insurance Corporation covering the reports of examination made by those agencies, respectively, of the other Transamerica banks. Should their decision be adverse, that fact could be made a matter of record in the Transamerica proceedings. A reviewing court would then be fully informed as to the reasons underlying a divided ruling on counsel's request."

In response to a question from Chairman McCabe, Mr. Vest stated that Mr. Smith, Special Counsel, had indicated he felt it would be desirable if the confidential sections of the reports requested could be made available to Mr. Stewart, attorney for Transamerica Corporation, so that there would be no question of the Board's having withheld information from Transamerica counsel which might have been available to the Board's Solicitor in connection with the Clayton Act proceeding against Transamerica Corporation.

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Mr. Vest also stated that the position of the Board in the past had been the same as that of other banking supervisory agencies, that confidential sections of examination reports under no circumstances should be made available to persons other than the supervisors of the examining agencies for the reason that such a policy was considered necessary in order that examiners might feel entirely free to make any comments or express any opinions that they felt were called for in connection with an examination.

Mr. Vardaman stated that he would be firmly opposed to a change in the present procedure, that he considered it essential to continue this procedure in order to assure complete freedom of the examiners in expressing their views, but that he would be favorable to sending a communication to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation asking whether they would be willing to have confidential sections of the reports of examinations of national banks and insured nonmember banks, respectively, made available.

Mr. Millard said he could not express too strongly his opposition to making the confidential sections of examination reports available to Transamerica or to anyone engaged in litigation or to other outside parties for any purpose. He felt that such a departure from existing policy would destroy the present understanding of the examiners that they should express freely and in confidence their views as to the

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condition of the bank under examination and the qualifications of its management.

At this point Mr. Szymczak referred to a request received yesterday from attorneys for Transamerica Corporation asking if the Board felt that it had the subpoena power, and raised the question how the request should be disposed of in view of the short time between now and the resumption of the hearing next Monday.

Mr. Vest stated that the request was under consideration and that he expected to be able to make a recommendation later in the week when Mr. Smith, Special Counsel, would be available to discuss the subject at a meeting of the Board.

Chairman McCabe suggested that Mr. Vest study the memorandum from Mr. Townsend and the request from Transamerica with respect to subpoena power and that both matters be placed on the agenda for consideration at the meeting on Friday, September 16, 1949.

The foregoing suggestion was approved unanimously.

At this time Mr. Clayton and Mr. Cherry, Assistant Counsel, joined the meeting.

Mr. Carpenter stated that the Federal Advisory Council wished to discuss at its meeting next week the attitude of the Board toward H.R. 5512, a bill which would give the Federal Land Banks power to borrow from the Federal Reserve Banks for one year at the Federal

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Reserve discount rate. He reviewed correspondence earlier this year with respect to the proposed legislation in which Mr. Clayton expressed the view informally that he knew of no reason why the Board, if called upon for a report, would take any different position with respect to it than it did in 1940, when an identical provision was contained in section 4 of the bill, H. R. 9843, 76th Congress, at which time the Board stated that it had no objection to the enactment of such a proposal. Mr. Carpenter added that Mr. Sproul, President of the Federal Reserve Bank of New York, had written a letter under date of August 20, 1949, referring to the proposed legislation and suggesting that if Congress felt it necessary to give the Federal Land Banks direct access to Federal Reserve credit, such credit should be available under section 10(b) of the Federal Reserve Act at a penalty rate $1/2$ percent above the regular discount rate, rather than at the discount rate of the Federal Reserve Banks. He also stated that, after discussing the matter with Chairman McCabe, the staff had suggested informally to the clerk of the Senate Committee on Agriculture which had the bill under consideration, that since the proposed legislation was of primary concern to the banks it should be considered by the Senate Banking and Currency Committee.

Mr. Clayton stated that he had asked that the matter be considered at this meeting with the thought that the Board might wish to request that action on the bill be withheld until the Board could

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discuss the matter with the Federal Advisory Council after which the Board could determine whether it wished to propose any changes in the bill.

During the discussion of the matter, it was suggested that Chairman McCabe call either Senator Maybank, Chairman of the Senate Banking and Currency Committee, or Senator Robertson, Chairman of the subcommittee of the Senate Banking and Currency Committee handling Federal Reserve matters, to discuss the question whether the proposed legislation might be transferred to that Committee for consideration.

During the discussion, Mr. Vardaman withdrew from the meeting to keep another appointment.

The foregoing suggestion was approved unanimously, with the understanding that Chairman McCabe would report his discussion to the Board.

At this point Messrs. Riefler, Thomas, Vest, Leonard, Millard, Cherry, Young, and Youngdahl 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 September 12, 1949, were approved unanimously.

Memorandum dated September 12, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in

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the basic annaul salaries of the following employees in that Division, effective September 18, 1949:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
A. Jane Moore	Economist	\$3,727.20	\$3,852.60
Virginia E. Leaman	Clerk-Stenographer	2,949.72	3,024.96
William E. Hardy	Messenger	2,218.00	2,284.00

Approved unanimously.

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

"This refers to your letter of August 11, 1949, to Mr. Millard with respect to the stock of the National City Bank of Dallas held by trustees for the shareholders of the Republic National Bank of Dallas which was voted at the 1949 annual stockholders meeting.

"As you know, section 5144 of the United States Revised Statutes provides that shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit from the Board, and it is further provided that for the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are held by any trustee for the benefit of the shareholders thereof. From this it appears evident that the stock of the National City Bank of Dallas held by the trustees for the shareholders of the Republic National Bank of Dallas was not legally voted at the 1949 annual stockholders meeting as the Republic National Bank of Dallas does not have a general voting permit from the Board and the limited permit issued on January 10, 1948, expired by its terms on April 1, 1948."

Approved unanimously.

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

"Recently one of the Federal Reserve Banks raised a question as to the payment of a fee to a person designated by it to attend a meeting of the Federal Advisory Council where the duly appointed member for the particular Federal

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Reserve District was unable to attend the meeting. In that instance, the Board stated that it would interpose no objection to the payment to the person designated to attend the meeting of a fee for such attendance, as well as reimbursement for expenses incurred by him, on the same basis as such fees and expenses were paid by the Reserve Bank involved to its regularly appointed member of the Council.

"In a letter dated March 21, 1925 (F.R.L.S.#4252) the Board expressed the view that a person invited by a Federal Reserve Bank to attend a meeting of the Federal Advisory Council in the absence of the duly appointed member would not be a legally constituted member of the Council and would not have power to vote on recommendations or other matters coming before the Council for consideration; but the Board stated that it would not question the payment of such person's actual expenses in any such case. While there has been no change in the Board's view as to the legal status of any such persons, the Board, in view of the recent inquiry, has considered the question of the payment of fees, as well as allowances for expenses, in cases of this kind; and, in any case in which the duly appointed member of the Council for any Federal Reserve District is unable to attend a particular meeting and the Federal Reserve Bank appoints a person to attend in his place, the Board will interpose no objection to the payment to such person by the Reserve Bank of a fee, as well as an allowance for expenses, for attendance at such meeting. Such fees and expenses may be paid on the same basis as fees and expenses would have been paid to the duly appointed member of the Council if he had attended such meeting.

"The Board's letter of February 7, 1947 (F.R.L.S. ##3083 and 4253) contains a schedule of maxima under which fees and allowances may be fixed for members of the Federal Advisory Council and any changes made from time to time in such fees and allowances should be reported to the Board of Governors.

"As indicated in the Board's telegram of March 11, 1936, your Bank was authorized until further notice to contribute not exceeding \$350 annually toward the expenses of the Office of the Secretary of the Federal Advisory Council and any proposed payment in excess of this amount should be submitted to the Board of Governors for approval.

"This letter supersedes the Board's letter of March 21, 1925 (F.R.L.S.#4252)."

Approved unanimously.

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

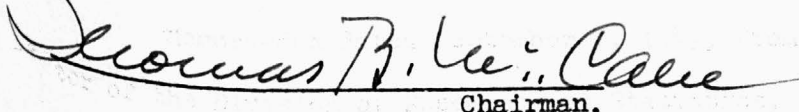
"This refers to Mr. McMurray's letter of August 26, 1949, requesting an opinion from the Board as to the merits of the bill S.2494 relating to capital requirements for the admission of State banks to membership in the Federal Reserve System and the establishment of branches by State member banks.

"You were kind enough to introduce this bill at the suggestion of the Board and we have noted your remarks on the floor of the Senate that your Committee does not expect to hold hearings on the bill until after the first of the year. When hearings on the bill are scheduled by your Committee, we will appreciate having an opportunity to appear before your Committee to offer testimony in favor of the bill."

Approved unanimously.


Secretary.

Approved:


Chairman.