

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 23, 1949. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
 Mr. Eccles
 Mr. Szymczak
 Mr. Draper
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Thomas, Director, Division of Research and Statistics
 Mr. Vest, General Counsel
 Mr. Nelson, Director, Division of Personnel Administration
 Mr. Millard, Director, Division of Examinations
 Mr. Young, Associate Director, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel

The Secretary read a telegram from the Federal Reserve Bank of New York as follows:

"Our directors today voted unanimously, subject to review and determination of the Board of Governors of the Federal Reserve System, to eliminate the rate of 1-1/2 percent on discounts for and advances to member banks under sections 13 and 13A, and to establish a rate of 1-1/4 percent thereon; to eliminate the rate of 2 percent on advances to member banks under section 10(b), and to establish a rate of 1-3/4 percent thereon; to eliminate the minimum buying rates of 1-1/2 percent on bankers acceptances and 1-1/2 percent on trade acceptances, and to establish minimum buying rates of 1-1/4 percent thereon; and to eliminate the rate of not less than 1-3/8 percent in connection with purchases of Government securities under resale agreement as authorized by the Federal Open

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"Market Committee on August 5, 1949, and to establish a rate of 1-1/4 percent in connection with purchases of such securities under resale agreement as authorized by the executive committee of the Federal Open Market Committee at its meeting held January 20, 1948. Otherwise the Federal Reserve Bank of New York has today established without change the rates of discount and purchase in existing schedule. This action was taken in light of full review of circumstances which prompted similar action last week, of intervening events and intervening discussions with your Board, and in light of views of Federal Advisory Council as presented to us today by W. R. Burgess, Representative of this District on the Council. Last week's action was unanimous action of seven directors present at meeting, including Class A Group I and II banker-directors. This week four of the five directors present were acting in confirmation of their action last week and fifth director was Class A Group III banker-director who was absent week ago. Now have had unanimous action participated in by eight of our nine directors including three banker-directors being all those present at meetings at which change in discount rate has been brought to vote as responsible body which shares with Board of Governors statutory responsibility for rate action. We solicit favorable review and determination by Board of Governors."

Mr. Draper said that he would favor action today to approve the rates established by the Federal Reserve Bank of New York.

Chairman McCabe suggested that in view of the recent discussions of discount rates and Mr. Vardaman's absence today, no change be made in the position taken by the Board on September 21, 1949, with respect to such rates and that the Secretary be requested to advise Mr. Sproul, President of the Federal Reserve Bank of New York, by telephone accordingly.

Chairman McCabe's suggestion was approved unanimously.

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Secretary's Note: In accordance with the above action, the Secretary called Mr. Sproul on the telephone later in the day and informed him that the Board was not prepared at this time to approve the rates fixed by the directors of the Federal Reserve Bank of New York as set forth in his wire of September 22, 1949, and that therefore action on the proposed rates was being deferred.

There were presented telegrams to the Federal Reserve Banks of Boston, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 20, by the Federal Reserve Banks of Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on September 22, 1949, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Before this meeting there had been circulated among the members of the Board a memorandum from Messrs. Vest and Millard dated September 13, 1949, recommending that the organizers of an Edge Act corporation to be known as "Bank of America" be advised informally through the Federal Reserve Bank of San Francisco that the Board was prepared to approve the proposed organization certificate and the articles of association of the corporation, with the understanding that certain technical matters referred to in the memorandum would

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be worked out to the satisfaction of the Board's staff before the Board's formal approval would be given.

During a discussion of the proposed Edge Act corporation, question was raised as to how the establishment of such a corporation for the purpose of carrying on the foreign business of the Bank of America National Trust and Savings Association would alter the situation as compared with authorizing the Bank of America National Trust and Savings Association to establish foreign branches of the bank.

Mr. Szymczak stated that aside from limiting the liability of the national bank in connection with foreign operations, the formation of an Edge Act corporation would result in placing the entire organization directly under the supervision of the Board and would limit the ratio of deposits with the corporation to ten times its capital.

During a discussion, it was the unanimous view of the members present that for the reasons stated by Mr. Szymczak it would be entirely consistent for the Board to approve the organization of the corporation even though it was unwilling to approve the establishment of branches by the national bank.

Thereupon, upon motion by Mr. Szymczak, the recommendation contained in the memorandum from Messrs. Vest and Millard was approved unanimously.

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Reference was made to a letter received from Mr. L. M. Giannini, President of the Bank of America National Trust and Savings Association, San Francisco, California, under date of September 20, 1949, reading as follows:

"When I was in Washington recently, I had occasion to discuss with the Comptroller of the Currency the subject of pending applications by this bank for permission to establish branches at locations now served by certain California banks owned by Transamerica Corporation. You are doubtless aware of the facts that such applications have been pending for some time and that this bank has expressed a willingness to purchase the assets of the banks in question, subject to the approval by the Comptroller of this bank's applications for branch permits.

"As the banks in question are among those as to which, in the pending proceeding by the Board of Governors, the Board is seeking a divestment order, and as the effect of the proposed sales and establishment of branches would be to divest Transamerica of ownership of these banks, it seemed to me that there could be no legitimate objection on the part of anyone. The Comptroller, however, expressed doubt as to his legal right to approve the establishment of such branches during the pendency of the proceeding initiated by your Board against Transamerica Corporation. I told him that I had been advised there was no doubt as to his legal right to approve such applications, and that the matter was one for the exercise of the discretion vested in him by statute. He has now informed me that he will be glad to have his counsel attend any meeting which may be arranged between your counsel and ours for a discussion of this matter, to the end that the Comptroller's legal right to act may be fully discussed.

"If you agree that there is no reason why this particular question should not now be settled, and if you care to ask your general counsel, Mr. Vest, to meet with our counsel and counsel for the Comptroller at a mutually convenient early date, I shall ask our counsel to attend, and I trust that the lawyers will be able to agree upon the legal aspects of the situation as a basis for further action by the Comptroller."

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Mr. Vest read alternative rough drafts of a possible reply to the letter and stated that the drafts had been read over the telephone to Mr. Morrill, Special Adviser, who was then at the Federal Reserve Bank of San Francisco and to whom a copy of the incoming letter had been sent by wire. Mr. Vest also said that after discussing it with Mr. Evans, Mr. Townsend, Solicitor, and Mr. Hodge, Technical Adviser to the Hearing Officer, Mr. Morrill telephoned that it was their feeling that Mr. Giannini should be informed that the Board had reached the conclusion that it would not be appropriate in the circumstances for representatives of the Board to participate in a conference such as that suggested. Mr. Vest stated that Mr. Morrill commented that it was their feeling this letter represented an indirect approach toward a compromise settlement of the Clayton Act proceeding against Transamerica, that they felt there was no reason for Treasury counsel to participate in a discussion of this matter, and that if Transamerica wished to open negotiations for a settlement of the proceeding, the matter should be taken up by counsel for Transamerica with the Solicitor of the Board. Mr. Vest stated that Mr. Morrill added that Mr. Evans felt very strongly that any such conversations should be with the Solicitor of the Board and that any other method would invite complications.

There followed a discussion of various approaches that might be made in preparing a reply to Mr. Giannini during which it was

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the consensus of the members present that while the letter undoubtedly was an indirect approach to negotiations for a settlement of the pending Clayton Act proceeding against Transamerica, the language of the letter did not go into the merits of the proceeding but raised a question of policy over which the Comptroller of the Currency had jurisdiction. It was felt, however, that the Board also had an interest because of the effect that branching the banks involved would have in the event the Board should decide at the end of the proceeding to issue a divestment order and that in these circumstances, the Board should have a representative present at any conference at which the matter was discussed.

At the conclusion of the discussion, it was suggested that a draft of reply be prepared along the lines proposed during the discussion.

This suggestion was approved unanimously.

Chairman McCabe stated that Mr. Pace, Director of the Bureau of the Budget, had lunch with him on Wednesday of this week and that in discussing the proposed letter to be sent to the Chairman of the Senate Banking and Currency Committee with respect to S.2340, a bill making certain changes in laws applicable to regulatory agencies of the Government, Mr. Pace stated that he was in agreement with that portion of the letter which discussed a bi-partisan Board but that on the part relating to the internal management of the Board, the

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views expressed in the letter were not in accord with the President's program. Mr. Pace stated, however, Chairman McCabe said, that there was no objection to submission of the proposed letter if that should be the decision of the Board.

Following a discussion, the transmission of the letter to Senator Maybank, Chairman of the Senate Banking and Currency Committee, in the form transmitted to the Bureau of the Budget for comment on August 11, 1949, was approved unanimously.

Mr. Draper presented a memorandum dated September 22, 1949, which read as follows:

"As a member of the Executive Committee of the Retirement System I have been asked to approve a trust agreement between the Retirement System and the Northern Trust Company of Chicago, covering the acquisition and handling of Title VI FHA mortgage loans as investments for the Retirement System.

"The Investment Committee of the Retirement System has decided to invest \$2 or \$3 million in FHA mortgages. Consideration was given to the possibility that the Retirement System might qualify as an approved mortgagee in order to handle FHA mortgages; but it was found that in order to qualify for this purpose under FHA regulations, it would be necessary for the Retirement System to agree to submit to examinations by FHA and to furnish information on a broad basis. In view of the disadvantages in qualifying as an approved mortgagee, the suggestion was made that the Northern Trust Company, which is already an approved mortgagee, handle such mortgages for the Retirement System under a trust agreement. The Northern Trust Company would act in a fiduciary capacity as trustee for the Retirement System in handling such mortgages which are to be purchased under the direction of the Investment Committee. The charge for this service would be 1-3/4 percent of the gross income collected from such securities.

"As you will recall at a meeting on April 29, 1949, the Board advised the Presidents that it would be willing to

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"agree to a continuation until December 31, 1950 of the Investment Policy of the Retirement System designed to increase the average earnings to a 3 percent level, with the understanding that in the event that objective was not attained action would be taken to reduce the interest base or an investment policy would be adopted which would justify a guarantee by the Federal Reserve Banks of the benefits provided by the Retirement System. The Board suggested that as a part of this procedure the present arrangement whereby the Northern Trust Company acts as investment adviser would be discontinued and that a qualified investment counsellor would be employed who would work under the direction and supervision of the Investment Committee. Up to this time the arrangement with the Northern Trust Company has not been terminated, and no outside investment counsellor has been employed.

"In my opinion, the question whether the Northern Trust Company should act as trustee for handling FHA mortgages under the proposed arrangement is separate and apart from the question of the Northern Trust Company continuing to act as investment counsellor. Consequently, I see no objection to approving the proposed trust agreement between the Retirement System and the Northern Trust Company. While any bank could act as trustee in handling FHA mortgages on behalf of the Retirement System, there would appear to be no reason to select some other institution in view of the satisfactory service which has been rendered by the Northern Trust Company, and in view of the fact that the Retirement System uses that bank as a depository for funds to be paid out monthly as retirement allowances.

"In the circumstances, unless the Board has some objections it is my purpose to approve the proposed arrangement for handling FHA mortgages."

After a discussion, upon motion by Mr. Draper, unanimous approval was given to his approving the proposed arrangement as a member of the Executive Committee.

Mr. Szymczak stated that during a preliminary consideration of appointments of Federal Reserve Bank Class C and branch directors to be made at the year-end, the Personnel Committee had been informed

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by Mr. Nelson that Mr. Brainard, Chairman of the Cleveland Federal Reserve Bank, whose term expires at the end of this year, had indicated that he would appreciate knowing well in advance of the year-end whether the Board would like to have him continue to serve as a director or whether it wished to replace him.

Chairman McCabe suggested that it be understood that at the appropriate time Mr. Brainard would be reappointed for a three-year term as a director of the Cleveland Bank and designated Chairman and Federal Reserve Agent for the year 1950.

Chairman McCabe's suggestion was approved unanimously.

At this point Messrs. Leonard, Thomas, Vest, Nelson, Millard, Young, and Solomon 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 22, 1949, were approved unanimously.

Memorandum dated September 21, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Elese McCormack as a clerk in that Division on a temporary indefinite basis with basic salary at the rate of \$2,498.28 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

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Approved unanimously.

Memorandum dated September 23, 1949, from Mr. Bethea, recommending that the appointment of Geraldine M. Venable, cafeteria helper in that Division, be extended on a permanent basis, effective October 1, 1949, with no change in her present basic salary of \$2,020 per annum.

Approved unanimously.

Memorandum dated September 23, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Norman W. Feiten, a cafeteria helper in that Division, be accepted to be effective, in accordance with his request, at the close of business September 22, 1949.

Approved unanimously.

Telegram to the President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reurlet September 19. Board approves designation of the following employees of your bank as special assistant examiners: Robert G. Briere and Kyle K. Fossum."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of September 8, 1949, regarding the eligibility of Mr. W. D. Cook for re-election as a Class A director of your Bank.

"It is understood that at the time of his election for the term expiring December 31, 1949, Mr. Cook was chairman of the board of directors of The First National

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"Bank in Meridian, Mississippi, but that he was not reappointed to that position this year, although he continues to be a director of the national bank. We see no reason to differ from the opinion expressed in your letter that Mr. Cook is still eligible for election as a Class A director of your Bank, since the only requirement of the law in this respect is that such directors shall be 'representative of the stockholding banks'."

Approved unanimously.

Memorandum dated September 13, 1949, from Mr. Leonard, Director of the Division of Bank Operation, recommending that he be authorized to negotiate with Paul Grady of Price, Waterhouse and Company to serve as consultant in the review of the functional expense system and other accounting reports submitted by the Federal Reserve Banks to the Board and if he is not available, to negotiate with other consultants to serve in such capacity.

Approved unanimously, Mr. Vardaman stating that he had no objection to the employment of Mr. Grady but that he would not favor employment of Price, Waterhouse and Company as such.

Letter to the Honorable Frank Pace, Jr., Director of the Bureau of the Budget, reading as follows:

"In compliance with a request received from the Senate Committee on Banking and Currency, the Board has prepared the enclosed report on the Bill S.2472 to amend the Reconstruction Finance Corporation Act.

"Before transmitting this report, the Board will appreciate advice as to the relationship of the proposed legislation to the program of the President."

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Approved unanimously.

[Signature]
Secretary.

Approved:

[Signature]
Chairman.