Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 26, 1949.

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

Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Memoranda from the heads of the divisions indicated below recommending appointments to the staff in those divisions, effective as of the dates upon which the appointees enter upon the performance of their duties after having passed the usual physical examination:

Date of Memo	Name	Title	Salary	Duration of Appointment
PERSONNEL ADMINISTRATION				
10/25/49	Miss Gena Ellen Gander	clerk-stenographer	$2,498.28	Temporary Indefinite
OFFICE OF THE SECRETARY				
10/20/49	Mrs. Sarah E. O'Connell	clerk typist	$2,498.28	Temporary (three months)
10/21/49	Miss Anne K. Leach	file clerk	$2,284.00	Temporary (six months)

Approved unanimously.

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

"Enclosed herewith is a copy of a letter dated October 8, 1949, from Snyder and Fletcher and O'Neil, South Pasadena, California, attorneys for Escrow & Loan Service Co., Incorporated, formerly of South Pasadena, California, and now located in Pasadena, California.

"On the basis of the information contained in that letter, the Board has rescinded the determination made

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"on December 28, 1948, that Escrow & Loan Service Co., Incorporated, was not engaged, directly or indirectly, as a business in holding the stock, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended. We are enclosing for transmittal, a self-explanatory letter addressed to Escrow & Loan Service Co., Incorporated, advising the Company that the determination has been rescinded and that, therefore, the Company is now a holding company affiliate for all purposes. A copy of the letter is enclosed for your files.

"You will note that the Company's attorneys asked certain questions concerning the interpretation of subsections (b) and (c) of section 5144 of the Revised Statutes. Their second question appears to have been answered by Mr. Agnew's letter of October 9, 1948, and the Board's letter of October 19, 1948, in which they were advised that if there is no statutory liability imposed upon the holders of the bank stock which is owned or controlled by a holding company affiliate, subsection (b) is not applicable and the holding company affiliate need only establish and maintain a reserve of readily marketable assets other than bank stock in accordance with subsection (c).

"In connection with their first question, the Board does not construe subsection (c) to require that a holding company affiliate possess any readily marketable assets at the time it applies for or is granted a voting permit. The requirement of subsection (c) is that a holding company affiliate establish and maintain out of net earnings over and above 6 per cent per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of the bank stocks controlled by it. Since this requirement becomes applicable to a holding company only as a condition to receiving a voting permit, it is the Board's view that it requires a holding company affiliate to establish a reserve of readily marketable assets only to the extent that the company has 'excess' earnings subsequent to the date on which it is granted a voting permit.

"It will be appreciated if you will advise Snyder

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"and Fletcher and O'Neil in accordance with the foregoing, and transmit to them the enclosed letter addressed to Escrow & Loan Service Co., Incorporated."

Approved unanimously, together with the following letter to Escrow & Loan Service Co., Incorporated, 132 East Colorado Street, Pasadena, California:

"This refers to the determination made by the Board on December 28, 1948, that your Company was not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended. As a result of this determination, your Company ceased to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"When the determination was made, it was understood that your Company owned a majority of the outstanding shares of stock of Pasadena-First National Bank, Pasadena, California, but did not own or control any stock of, or manage or control, any other banking institution. In a letter dated October 8, 1949, your attorneys, Snyder and Fletcher and O'Neil, South Pasadena, California, advised us that your Company had subsequently acquired the controlling stock of another bank, Valley National Bank of Alhambra, Alhambra, California. Your attorneys also indicated that they believed that your Company had again become subject to all laws applicable to holding company affiliates.

"The change in the facts upon which the Board's determination was based did not automatically change the status of your Company as a holding company affiliate in the absence of action by the Board. However, on the basis of the information contained in your attorneys' letter, the Board has rescinded the determination made on December 28, 1948; and, accordingly, your Company now is a holding company affiliate for all purposes, including the requirements relating to voting permits."

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Letter to Mr. A. J. Loda, Special Assistant, Board of Directors, Federal Deposit Insurance Corporation, reading as follows:

"According to the Board's records, the Calumet County Bank, Brillion, Wisconsin, to which you refer in your letter of October 17, 1949, has had the matter of adequate fidelity insurance coverage brought to its attention on several occasions.

"In 1947, the bank increased the amount of Banker's Blanket Bond coverage from $40,000 to $50,000 which, as you have noted, is below the minimum and far below the 'fair' amount, $65,000 and $95,000, respectively, recommended by the Insurance and Protective Committee of the American Bankers Association for banks having deposits of $2,000,000 to $3,000,000. However, it is felt that it should also be noted that the bank's deposits were $2,060,400 when examined on August 9, 1949, and have averaged only slightly over $2,000,000 since 1945.

"The Board of Governors and the Federal Reserve Banks have been active for some time in urging that State member banks should carry adequate fidelity insurance and advices received by the Board as to the number and amount of increases effected in coverage have been very gratifying although it is realized that much remains to be accomplished. The Reserve Banks have found it useful to refer, on occasion, to the statutory authority of the Federal Deposit Insurance Corporation to contract for any needed protection and add the cost thereof to the assessment payable by the bank.

"The Board's files contain a copy of a letter from the Board of Directors of the Calumet County Bank to the State Banking Department, dated September 20, 1948, from which the following is quoted:

> 'At the regular meeting of the Board of Directors, this date, the report of the examining committee herewith enclosed, was submitted in which the Blanket and/or Fidelity Bond matter was referred to the directors without comment, and was again discussed.
> 'The Board of Directors is committed to the operation of the bank with all sound assets, naturally resulting in a comparatively low yield, at a sacrifice to a larger income.

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'Under the circumstances it follows that expenditures are closely observed. We are not fully in accord with the suggestions outlined by the ABA committee in as much as that in our opinion the standardization of policies and practices usually leads to centralization which in turn eventually destroys private enterprise. We feel that this blanket bond matter has received thorough and intelligent consideration and being of the opinion that the responsibility for protecting a bank against operating hazards belongs exclusively in the Board of Directors, we are unanimously agreed that a $50,000 Bankers Blanket Bond form #24 is perhaps more than sufficient in our instance...'

"The Reserve Bank advises us that it expects to continue to urge that consideration be given to the matter but it appears that the directors of this bank have rather definite ideas on the subject for which they are willing to accept responsibility."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System under authority of the fourth paragraph of Section 16 of the Federal Reserve Act hereby establishes for the three months' period ending September 30, 1949, the rate of (1) per cent interest per annum on that amount of the Federal Reserve notes of your Bank which equals the average daily amount of its outstanding Federal Reserve notes during such period less the average daily amount of gold certificates held during such period by the Federal Reserve Agent as collateral security for such notes. Interest in an amount calculated in the manner and at the rate specified above shall be paid to the United States on October 28, 1949.

"According to daily balance sheets, the average

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"daily amount of outstanding notes of your Bank during the third quarter of 1949 not covered by gold certificates with the Federal Reserve Agent was $ (2) . At rate specified above, payment to Treasury for third quarter will be $ (3) . Payment should be credited to Treasurer's General Account as Miscellaneous Receipts, Symbol 1841-Interest Collected, Section 16 Federal Reserve Act as amended. Your Bank's pro rata share of $40,000,000 deduction for first three quarters of year in accordance with understanding at December 1, 1948, joint meeting of Presidents and Board and Board's telegram of October 19, 1949, is $ (4) . No statement being given press with respect to this action.

	(1)	(2)	(3)	(4)
Boston	1.07	992,939,361	2,677,943.85	2,691,000
New York	4.49	833,457,046	9,432,450.32	9,710,000
Philadelphia	1.15	950,201,781	2,754,283.52	2,796,000
Cleveland	1.19	1,209,825,866	3,628,814.68	3,729,000
Richmond	1.01	966,801,705	2,461,238.75	2,497,000
Atlanta	1.33	651,793,556	2,185,026.29	2,141,000
Chicago	1.37	1,712,770,715	5,914,455.37	5,884,000
St. Louis	1.08	775,672,488	2,111,529.27	2,098,000
Minneapolis	1.27	410,576,795	1,314,295.69	1,277,000
Kansas City	1.15	660,580,124	1,914,777.46	1,898,000
Dallas	1.46	454,064,121	1,670,955.97	1,717,000
San Francisco	3.06	445,377,956	3,435,145.27	3,562,000

Approved unanimously.

Assistant Secretary.

Approved:

Chairman.

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