

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 10, 1949.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 9, 1949, were approved unanimously.

Telegrams to the Federal Reserve Banks of Cleveland, 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 Kansas City on November 8, by the Federal Reserve Banks of Chicago and San Francisco on November 9, and by the Federal Reserve Banks of Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on November 10, 1949, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter prepared in accordance with action taken by the Board on September 27, 1949, to Mr. Gerald Alter, Board of Governors of the Federal Reserve System, reading as follows:

"The Board hereby authorizes you, in your capacity as an economist in the Division of Research and

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"Statistics, to proceed to South America to attend the conference of central banks of the western hemisphere in Santiago, Chile, as a member of the Federal Reserve System delegation to the conference, in the course of which travel you are to call on the central banks of Brazil, Uruguay, Argentina, Chile, and Peru. During your stay in Chile you will assist representatives of the International Bank for Reconstruction and Development in accordance with arrangements made with the officers of the Bank. It is understood that the travel will be by air and that you will return to Washington the latter part of December.

"While absent from Washington, in addition to the customary traveling expenses allowed by the Board's travel regulations including charges on excess baggage weight up to 10 pounds and charges for flight insurance, a per diem of \$12.00 will be paid from funds under the control of the Board.

"It is requested that you retain the original of this letter, and that the file copy, after being initialed by you, be returned to the Board's files."

Approved unanimously.

Memoranda from the heads of the divisions indicated below recommending for the reasons stated therein, the following increases in the 1949 budgets of those divisions:

<u>Date of Memo</u>	<u>Budget Item</u>	<u>Amount of Increase</u>
BANK OPERATIONS 11/9/49	Stationery and Supplies	\$350
	Telephone and Telegraph	400
LEGAL DIVISION 11/9/49	Stationery and Supplies	\$125

Approved unanimously.

Memorandum dated November 2, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending an extension

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of the appointment of A. A. Moore as a night settlement clerk in that Division, to work regularly each Friday night in the Inter-district Settlement Fund Section, at a rate of \$7.50 per night of his employment, through December 31, 1950.

Approved unanimously.

Memorandum dated November 2, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending an extension of the employment of Willis H. Mitchell as an analyst in that Division through December 31, 1950, or such earlier date as his particular assignment has been completed, at his present compensation of \$12 per day for each day worked.

Approved unanimously.

Telegram to Mr. Koppang, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reurtel November 9, 1949, Board has considered total expense to be incurred for improvement and extension of air conditioning system in Kansas City head office building on basis of actual contracts let, low bid on balance of work, engineering fee, and performance bond premium, and will interpose no objection to your making an expenditure of not to exceed \$400,000 to carry out this program. This represents an increase of \$25,000 over the previous expenditure authorized in the Board's letter of February 16, 1949.

Approved unanimously.

Letter to the Honorable Emanuel Celler, Chairman, Committee on the Judiciary, House of Representatives, reading as

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follows:

"This is in response to your letter of October 17, 1949, enclosing copies of the bill, H.R. 6198, for the relief of the First National Bank in Richmond, California, and requesting a report as to the merits of this bill.

"From information contained in the Board's files, it is our understanding that the essential facts of this case are as follows. Acting under the V-loan program for financing war production, the War Department in December 1942, entered into a guarantee agreement with the First National Bank in Richmond, California, under which the War Department agreed to bear 90 per cent of all losses on a loan made by the Bank to the R. J. Minton Construction Company and also to assume the same proportion of all expenses incurred by the Bank after default in the enforcement of such loan. The loan was secured by an assignment to the Bank of the borrower's claims under the war contract which it had with the Government.

"Upon the default of the borrower in 1943, certain surety companies which had been obliged to pay claims for labor and materials brought suit against the Bank in a State court to recover certain amounts which had been paid by the Government to the Bank as assignee of the borrower's claims under the war contract; and in 1948 a judgment was entered against the Bank which, with interest, amounted to approximately \$70,000. It is the Bank's position that the loss resulting from enforcement of this judgment is a loss on the loan and that the War Department is liable under the guarantee agreement for 90 per cent of such loss, but the War Department has denied such liability.

"It is further understood that some months ago, under the terms of a compromise agreement approved by the Department of Justice, the surety companies accepted \$50,000 in full satisfaction of their judgment and that of this amount \$23,000 was paid by the Bank and \$27,000 was paid by the War Department. Consequently, since the Bank has incurred legal fees of approximately \$10,000 in connection with the loan, total losses and expenses on the loan have been about \$60,000, of which the Bank has in effect received from the Government approximately 45 per cent. Although the Bank

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"deemed it advisable to accept the compromise settlement on this basis, it is believed that, in view of all the circumstances of the case, the Bank is equitably entitled to receive from the Government 90 per cent of all losses and expenses incurred, that is, about \$54,000. The bill, H.R. 6198, would accomplish this result by providing for payment to the Bank of the difference between this amount and the amount which it has in effect already received from the Government.

"The Board of Governors has been interested in this case, not only because of the Bank's membership in the Federal Reserve System, but because the V-loan program was administered through the Federal Reserve Banks and in accordance with the Board's Regulation V. The Guarantee agreement with the First National Bank in Richmond was executed by the Federal Reserve Bank of San Francisco as agent for the War Department. Because of its interest in the matter, the Board addressed a letter to the Secretary of the Army on April 18, 1949, urging that further consideration be given to the merits of this case; and a copy of that letter is enclosed for your information. As indicated in the Board's letter, it is the view of the Board's Counsel that the Government is obligated to share the loss on the loan in this case. Moreover, the case involves an important principle because of its possible effect upon any future program in which the Government might desire to enlist the services and facilities of the commercial banking system in the financing of Government contractors.

"For the reasons indicated, the Board believes that the claim of the Bank against the Government is a meritorious one and that enactment of the bill, H.R. 6198, is entirely justified. The First National Bank in Richmond has recently been succeeded by the Central Valley Bank of California in Richmond, California, also a member of the Federal Reserve System; but this would not seem to affect the equities of the case."

Approved unanimously.

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

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"The Board approves the preparation of final plans and specifications for the proposed addition to the Los Angeles Branch building along the lines outlined in your letter of September 6, 1949, and the accompanying data. This is with the usual understanding, of course, that the final plans will be submitted to the Board for consideration before bids are requested.

"It is highly doubtful, however, whether authorization to proceed with the construction of the addition can be given under the existing limitation of \$10,000,000 for all branch building programs. The most urgent needs of the San Francisco District have been taken care of through the authorization of the new buildings for the Portland and Seattle branches, and it is believed that in the light of operating conditions, the need for other programs now pending before the Board is greater than that at Los Angeles. The Board intends early in the next session of Congress to seek legislation repealing the limitation on branch building construction, or, if repeal appears doubtful, increasing the amount now authorized for such construction.

"Mr. Persina, the Board's consulting architect, has reviewed the preliminary plans and outline specifications for the Los Angeles building program and his comments and suggestions are being forwarded to you under separate cover for your consideration in the development of the program and the preparation of the detailed plans."

Approved unanimously.

Memorandum dated November 8, 1949, from the Personnel Committee recommending that the action of the Board at the meeting on February 4, 1947, be modified to the extent that the Board adopt a policy whereby it will pay the costs of a dinner not more frequently than once each year for representatives attending the Auditors' Conference, Examiners' Conference, and the System Research Advisory Committee meeting in Washington,

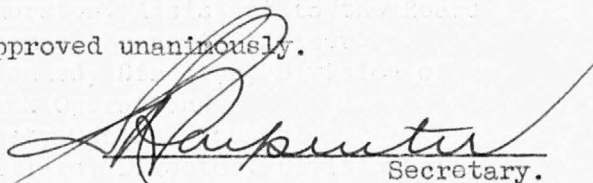
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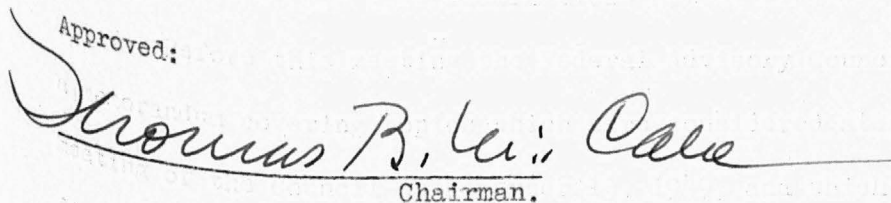
provided that the costs of such dinners shall not exceed \$10 per person and that the list of those invited to attend will be submitted in advance to the Personnel Committee for approval.

The memorandum further recommended that on the basis of this policy the Board pay the costs of the dinner to be given in connection with the meeting of the System Research Advisory Committee on November 14, 1949, with the understanding that the appropriate budget classification of the Division of Administrative Services be increased accordingly.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.