Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 20, 1950. The Board met in the Board room at 10:45 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Vardaman
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Bethea, Director, Division of Administrative Services
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on January 17 and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and St. Louis on January 19, 1950, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Carpenter read a draft of letter prepared in response to a request received from the Bureau of the Budget for comments of the
Board on a bill to increase the insurance coverage on savings and loan accounts from $5,000 to $10,000.

The draft was discussed, changed, and approved in the following form:

"This refers to your letter of January 19, 1950 regarding a proposed bill 'To amend Title IV of the National Housing Act, as amended'. The bill would increase the maximum insurance of any investor in an institution insured by the Federal Savings and Loan Insurance Corporation from $5,000 to $10,000.

"We are not aware of studies which indicate any need for an increase in the coverage of Federal savings and loan insurance, and it seems likely that the present proposal is being made chiefly because of the current discussion of proposals for increasing the coverage of Federal deposit insurance. It is perhaps natural to suppose that similar principles should govern the maximum coverage of the two kinds of insurance.

"True, there are some similarities in the two situations, but there are also significant differences. In the brief time available we have not been able to analyze the necessary data, but we think it may be worthwhile to mention some of the important differences which you may wish to take into account in your consideration of this proposal.

"Bank deposits constitute the country's chief form of money. As such they occupy a unique position in the financial structure and require unique safety and liquidity. On the other hand, savings and loan shares represent investments. Whatever may be the reasons in the public interest for insuring those investments, the grounds must necessarily be different from the monetary reasons for protecting and safeguarding the money supply. As local mutual thrift institutions, savings and loan associations should concentrate on the job for which they are best adapted -- that of providing facilities for the investment of funds in relatively small amounts.

"The differences between the operation of the banking system and the savings and loan associations are
Partly reflected in the sharply different coverage of the two insurance systems under the present $5,000 limit which applies to both. As of September 30, 1949, only about 42 per cent of total deposits in insured banks were covered by deposit insurance. It is estimated that an increase to $10,000 in deposit insurance coverage would raise this figure to only about 52 per cent. We do not have comparable figures for the insurance coverage of insured savings and loan associations, but it probably is already very close to 100 per cent.

"In other words, savings and loan associations have a far greater insurance coverage with a $5,000 limit than the banks would have with a $10,000 limit. Any effort to achieve fairness and equality of treatment must take into account not merely the dollar figure set as a limit on insurance coverage, but also the results produced when the figure is applied in the two different situations. On that basis, a $5,000 limit for savings and loan associations and a $10,000 limit for banks would seem to leave the scales heavily weighted in favor of the savings and loan associations.

"If the maximum insurance coverage for savings and loan associations were increased to $10,000, it would doubtless be the occasion for the associations to make a campaign for increased sale of their shares. This might increase the insurance liability of the savings and loan insurance corporation very substantially. Such an increase in liability would be a step in exactly the wrong direction. Instead, the primary aim should be for the corporation to repay the capital supplied by the Government and build up more adequate reserves against its existing liabilities."

Mr. Solomon withdrew from the meeting at this point.

Mr. Szymczak referred to the discussion of the Board's 1950 budget at the meeting on December 15, 1949, when it was agreed that further consideration would be given to the matter at a meeting on January 19, 1950, and stated that in anticipation of this meeting
and at the Personnel Committee's request, Mr. Bethea had prepared a memorandum dated January 9, 1950, relating to the budget, copies of which had been furnished to each member of the Board before this meeting.

At Mr. Szymczak's request, Mr. Bethea reviewed the memorandum dated January 9, 1950, and discussed various aspects of the Board's budget, including the method and procedure followed in preparing the budget, the consideration given to a change in the procedure during 1949, the consideration given to the budget for 1950 by the Personnel Committee at various meetings in 1949, the principal changes in the budget for 1950 as compared with costs for 1949, and other matters relating to the Board's budget procedures.

During Mr. Bethea's statement, Chairman McCabe withdrew from the meeting to make an important telephone call.

There followed an extensive discussion of the Board's budget procedure and of the possible desirability of adopting an accounting system, at least with respect to personnel, which would enable the Board to determine the costs of various functions performed by the Board and its staff more readily.

In the course of this discussion Mr. Young withdrew and Mr. Thomas, Economic Adviser to the Board, joined the meeting.

During the discussion, it was suggested that Price, Waterhouse & Co., who made a survey of Federal Reserve Bank accounting
procedures, be employed by the Board to survey its accounting pro-
cedures.

Following a discussion, upon motion by Mr. Vardaman, the Secre-
tary was authorized to enter into negotiations with Mr. Grady of
Price, Waterhouse & Co. for a survey by the Company of the Board's
budgetary and accounting system for the purpose of making recom-
mendations with respect to the adequacy of existing procedures,
practices, and methods, including (1) whether the accounts should be
kept on a functional instead of on a departmental basis; and (2) in
what respects, if any, the preparation, presentation, and consider-
ation of the Board's annual budget might be improved.

Mr. Szymczak then referred to the action of the Board on
December 15, 1949, in accepting the 1950 budget of the Board as
presented in a memorandum to the Board dated December 7, 1949 as a
basis for operations, subject to further review at this meeting.

Upon motion by Mr. Szymczak, the budget for 1950 as recorded
in the minutes of December 15, 1949, was approved unanimously.

Mr. Eccles referred to the bill that had been proposed for
cooperative housing for middle income groups, S. 2246. He stated
that the bill had been introduced in the Senate as an Administration
matter, that the hearings before the Senate subcommittee had been
concluded, and that it did not appear that the views expressed in
the Board's letter of December 22, 1949, had been presented. He also expressed the view that, for the reasons stated in the Board's letter, the bill should not be approved by the Congress at this time and he suggested that, if the bill should be passed by the Senate, the views of the Board be presented at the appropriate time to the Committee of the House of Representatives which would consider a similar bill, H.R. 6618, with the request that the Board's position be made a part of the record of the Committee hearings on the bill.

There was agreement with Mr. Eccles' suggestion and it was understood that the Secretary would report the substance of the discussion to Chairman McCabe and, if he had any other view, that the matter would be discussed by the Board again.

At this point Messrs. Riefler, Leonard, Bethea, Vest, and Nelson 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 January 19, 1950, were approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Kansas City at the rates indicated for the
"period January 1 through May 31, 1950 unless otherwise indicated. According to your letters of January 14, 1950, and December 27, 1949, these are the rates fixed by your board of directors at its meeting on January 12, 1950.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
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<tbody>
<tr>
<td>D. W. Woolley</td>
<td>Vice President</td>
<td>$15,000</td>
</tr>
<tr>
<td>Delos C. Johns</td>
<td>Vice President, General Counsel, &amp; Secretary</td>
<td>15,000</td>
</tr>
<tr>
<td>E. U. Sherman</td>
<td>Assistant Vice President</td>
<td>7,800*</td>
</tr>
<tr>
<td>C. A. Cravens</td>
<td>Assistant Cashier</td>
<td>6,300*</td>
</tr>
<tr>
<td>P. A. Debus</td>
<td>Assistant Cashier</td>
<td>6,000*</td>
</tr>
<tr>
<td>J. T. White</td>
<td>Assistant Cashier</td>
<td>5,400*</td>
</tr>
</tbody>
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*For the period January 12, 1950 through May 31, 1950."

Approved, Mr. Vardaman voting "no".

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"This refers to Mr. Wiltse's letter of December 14, 1949, transmitting a letter dated December 12, 1949, from Mr. Russell C. Smith, Executive Vice President, Bank of America, New York, New York, requesting the Board's approval of an amendment to the Articles of Association of Bank of America changing the location of the home office of Bank of America from 44 Wall Street to 40 Wall Street, New York, New York. Reference also is made to Mr. Tiebout's letter of January 12, 1950, concerning this matter.

Enclosed herewith is the Board's letter of this date replying to Mr. Smith's letter. It will be appreciated if you will forward the letter to Mr. Smith. A copy of the letter is enclosed for your files and a copy also is being sent to the Federal Reserve Bank of San Francisco for its information."

Approved unanimously, together with the following
letter to Mr. Russell G. Smith, Executive Vice President, Bank of America, 44 Wall Street, New York, New York:

"In your letter of December 12, 1949, transmitted through the Federal Reserve Bank of New York, you requested the Board's approval of an amendment to the Articles of Association of Bank of America changing the location of its home office in New York City. You also referred to certain activities of Bank of America N. T. & S. A., San Francisco, California, in New York City and indicated that it was proposed that the personnel carrying on these activities and the head office of Bank of America would be at the same location. Subsequently, further information concerning proposed office arrangements and related matters was furnished to the Federal Reserve Bank of New York informally.

"The Board approves the amendment to the Articles of Association of Bank of America changing the location of its home office from 44 Wall Street to 40 Wall Street, New York, New York. This approval, however, is not in any sense an approval of any arrangements under which there may be an intermingling of the operations of Bank of America and Bank of America N. T. & S. A. in New York City or under which employees of Bank of America N. T. & S. A. in New York City may be transferred to Bank of America but continue to perform various functions for and on behalf of Bank of America N. T. & S. A. In this connection, it must be recognized that any failure to provide for complete physical separation of the New York City offices of Bank of America and Bank of America N. T. & S. A. may lend itself to objectionable intermingling and confusion of the affairs of the two institutions.

"Although Bank of America is a wholly owned subsidiary of Bank of America N. T. & S. A., it is a separate and distinct corporation which is specifically forbidden by law from carrying on any business in the United States except such as in the judgment..."
"of the Board shall be incidental to its international or foreign business and, in the exercise of its powers, it is subject to regulations of the Board. Further, as was pointed out in the conference here on November 28, 1949, it is essential that, in view of the statutory restrictions upon the establishment of branches by national banks, the functions performed by Bank of America alone, or in conjunction with those performed by employees of Bank of America N.T. & S.A. in New York City, not be such that Bank of America would become in substance, or would appear to the public to be, a branch of Bank of America N.T. & S.A."

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

"Reference is made to your letter of January 9, 1930, submitting the request of the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, for permission to establish an additional branch in Raleigh, North Carolina.

In view of your recommendation, the Board of Governors approves the establishment and operation of a branch at Cameron Village in the city of Raleigh, North Carolina, by the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, provided the branch is established within six months of the date of this letter; the formal approval of the State Banking Commission of North Carolina is obtained; and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter to Mr. Evans, Hearing Officer in the Clayton Act Proceeding against Transamerica Corporation, reading as follows:

"This refers to your letters of December 6 and"
December 28, 1949, concerning the request made by Transamerica's attorney during the Clayton Act proceedings on December 7, that the Board obtain from the appropriate supervisory agencies a list of the reasons for the denials of the applications listed on Transamerica's Exhibit 250. As you know, the Board has written to the Comptroller of the Currency and the FDIC in order to ascertain their willingness to supply the information in question and a copy of a letter received from the Comptroller is enclosed herewith. We have also received an acknowledgment from the FDIC, but they have not as yet advised as to whether they will furnish the information.

"In the circumstances, the Board suggests that you consider making a statement on the record soon after the resumption of the hearing in the Transamerica proceeding, to the effect that the Board has written the Comptroller of the Currency and the FDIC regarding the request made by Transamerica's attorney on December 7 and that the Board will advise of its disposition of the request as soon as practicable."

Approved unanimously.

Chairman.

Approved:

Secretary.