Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 11, 1950. The Board met in the Board Room at 10:10 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Young, Director, Division of Research and Statistics

There was presented a letter dated April 7, 1950, from the CIO Full Employment Committee, Washington, D. C., stating that the national office of the Congress of Industrial Organizations had arranged for delegations of unemployed workers in some of the more severely stricken areas and industries in the nation to visit Washington during the period April 18-28, 1950 for the purpose of meeting with legislators, cabinet officials, and others and that they would like to arrange a few meetings in which some of these delegations could meet and discuss their problems with as many of the members of the Board as were available. The letter also transmitted a copy of a press release concerning the delegations referred to.

During a discussion of the letter, the view was expressed that the Board should meet with some of the delegations if suitable times could be selected and that prior to such meetings consideration should be given to the views that would be expressed by the Board to the delegations.

The foregoing suggestion was approved unanimously and Chairman McCabe said he and members of the staff would work out a program for the meetings.

Before this meeting there had been sent to each member of the Board a memorandum from the Division of Personnel Administration dated March 29, 1950, with respect to officers' salaries proposed informally by the Federal Reserve Bank of Philadelphia for the year beginning May 1, 1950.

Mr. Szymczak stated that the Personnel Committee had considered the tentative list of salaries submitted by the Philadelphia bank, that increases appeared selective and moderate with the exception of a proposed increase of $2,000 per annum in the salary of Vice President and Cashier Philip M. Poorman, that this proposed increase was discussed by telephone with President Williams of the Philadelphia Bank who subsequently advised that upon further consideration the Board of Directors felt that a $1,000 increase for Mr. Poorman would be satisfactory at this time, and that with that adjustment the Personnel Committee recommended that the Philadelphia Bank be advised informally that if the salaries were fixed by the Directors of the Philadelphia Bank at the levels proposed for the year beginning May 1, 1950, the Board would give favorable consideration to them.

During the ensuing discussion, Mr. Vardaman stated that he would vote to approve the proposed salaries but that he felt the Board should appraise each Federal Reserve Bank and the value of each officer's position in each bank with a view to developing a classification plan or some other system to assist the Board in reviewing the salaries of reserve bank officers.

> Following the discussion, (1) the recommendation of the Personnel Committee was approved unanimously, and (2) the Personnel Committee was requested to review the procedure followed by the Board in approving the salaries of officers' of the Federal Reserve Banks.

There had been circulated among the members of the Board a memorandum from Mr. Young dated March 28, 1950, recommending that Albert R. Koch, Chief of the Business Finance and Capital Markets Section of the Division of Research and Statistics, be authorized to participate in a study of the economic and financial situation in Costa Rica to be made by the Twentieth Century Fund, a private non-profit research organization, at the request of the President of Costa Rica, with the understanding that he would use annual leave accumulated to his credit for the purpose and that he would be absent from the Board's offices for a period not to exceed three months beginning about April 14, 1950. There had also been circulated a memorandum from the Personnel Committee dated April 6, 1950, submitting the matter for the consideration of the Board without recommendation but stating that (1) approval of Mr. Young's recommendation would appear to be in line with the Board's current policy of encouraging the utilization of accumulated annual leave; (2) arrangements satisfactory to the Director of the Division of Research and Statistics had been made for carrying on during Mr. Koch's absence the work program of the Business Finance and Capital Markets Section which was fully staffed; (3) permission for members of the Board's staff to accept remuneration for assignments performed while on annual leave was not without precedent; (4) numerous members of the Board's staff had maintained outside business connections from time to time, particularly in the teaching field.

Mr. Szymczak stated that while the Personnel Committee was submitting the matter without recommendation, he felt the request was worthy of approval in that Mr. Koch would obtain valuable experience and the mission could be expected to make a contribution in a field of interest to the Federal Reserve System and the general relations of the United States to international finance.

Mr. Vardaman stated that even though the Twentieth Century Fund was a private organization he would prefer that Mr. Koch be loaned to the Twentieth Century Fund for the mission and that the Board continue to pay his salary without requiring that he use accumulated annual leave. However, he said, he would be willing to approve the proposed arrangement if the Board felt it preferable to an outright loan of Mr. Koch's services.

Mr. Young stated that Mr. Koch was a valuable employee of the Board who was becoming increasingly useful, that he would like to undertake the proposed mission, and that he was entirely willing to use annual leave for the purpose it being understood that the Twentieth Century Fund would pay him at the rate of $1,000 per month while engaged on the project plus reimbursement for travel and living expenses while outside the United States.

Thereupon, the recommendation contained in Mr. Young's memorandum was approved unanimously.

At this point Mr. Millard, Director, and Mr. Hostrup, Assistant Director, Division of Examinations, joined the meeting and Messrs. Riefler and Young withdrew.

Mr. Szymczak referred to the discussion at meetings in March of the action of Mr. Towle, Vice President of the Federal Reserve Bank of Minneapolis in charge of the Helena Branch, in failing to disclose to President Peyton of that Bank information with respect to the misappropriation of funds from the Prescott Company by Mr. C. J. Larson, formerly an officer of the Helena Branch, while in the employ of the Bank. He stated that in accordance with a request of the Minneapolis Bank, Mr. Millard went to Minneapolis on Tuesday, March 21, 1950, and subsequently accompanied a committee of officers of the Minneapolis Bank to Helena, Great Falls, Missoula, and Kalispell, Montana, and Seattle, Washington, for the purpose of assisting them in developing a full statement of facts regarding the case. Mr. Szymczak also referred to telephone calls which Mr. Morrill received last week from President Peyton of the Minneapolis Bank with respect to the matter and asked that he report upon them.

Mr. Morrill stated that in his telephone conversations, Mr. Peyton said that arrangements were being made for a joint meeting of the head office and Helena Branch directors on April 28, 1950, to consider the available information and the action to be taken in the Towle matter. Mr. Peyton pointed out, Mr. Morrill said, the very great concern of the Helena Branch directors as well as the head office directors in this matter, and urged that the Board send a committee of three of its members to attend the joint meeting.

Mr. Peyton's request was considered and it was the consensus that, since the initial responsibility in respect to the disposition of the matter rested with the directors of the Federal Reserve Bank of Minneapolis, the participation by members of the Board in the forthcoming joint meeting would not be desirable or necessary.

At Chairman McCabe's request, Mr. Millard then reported the substance of the additional information gained during the recent trip in which he participated with Vice President McConnell and Vice President and General Counsel Ueland of the Minneapolis Bank for the purpose of making a complete investigation of the subject, and from which he returned yesterday. He stated that after reviewing the files of the Federal Reserve Bank of Minneapolis on March 22, he and Messrs. McConnell and Ueland proceeded to Helena, reaching there on March 24. From then until April 3, Mr. Millard said, they interviewed 19 individuals in Helena, Great Falls, Missoula, and Kalispell, Montana, Seattle, Washington, and Minneapolis, Minnesota. A copy of the list of individuals interviewed is attached to a memorandum from Mr. Millard with respect to the matter prepared under date of April 17, 1950.

During his report Mr. Millard read or referred to the following letters or documents, copies of which were incorporated in, referred to, or attached to his memorandum of April 17: (1) Letter from First Vice President Powell of the Minneapolis Bank to Mr. Towle dated March 16, 1950, informing Mr. Towle of the interest taken by the Board of Governors in the circumstances surrounding Larson's defalcations and that the Minneapolis Bank had been asked to present the matter to its Board of Directors at the earliest practicable date; (2) Memorandum dated January 6, 1950, prepared by Paul Brazier, Certified Public Accountant with the office of F. A. Johnson, the firm employed by the Prescott Company to take over the bookkeeping formerly done by Larson, describing the analysis made of the accounts of the Prescott Company at Mr. Towle's request on or about October 10, 1948, which showed the misappropriations of funds by Larson from that Company as disclosed by the audit for the period November 30, 1940-June 30, 1948; (3) An affidavit of J. Maurice Dietrich, brother-in-law of Mr. Towle and a stockholder and director of the Prescott Company, submitted to Mr. Towle for his assistance under date of March 20, 1950, since Mr. Dietrich was to leave shortly on a trip to Hawaii; (4) Letter from Mr. Towle to Mr. Gray Edmiston, President of the Conrad National Bank, Kalispell, Montana, dated August 25, 1948, congratulating the latter on procuring the services of Mr. Larson as Executive Vice President of the Conrad National Bank; (5) Two memoranda from Mr. Towle dated February 28, 1950: one of these placed a copy of his letter to Mr. Edmiston on August 25, 1948, in the files and explained the circumstances under which the letter was written; the other stated the circumstances under which Mr. Larson was employed by Mr. Edmiston of Conrad National Bank and why in Mr. Towle's opinion he was not obligated to pass along to Mr. Edmiston the information he received in November 1948 that Larson had misappropriated funds of the Prescott Company; (6) Letter from President Peyton of the Minneapolis Bank to Mr. Towle dated January 21, 1946, transmitting a request of the Directors of the Minneapolis Bank that Mr. Towle notify Mr. Larson that he must discontinue an outside business activity as secretary of the Montana Bankers Association and that he (Mr. Towle) correct any other instances of the same character with the least possible delay; and (7) Mr. Larson's "Report of Financial Obligations" filed with the Minneapolis Bank under dates of November 13, 1945, November 12, 1946, and December

9, 1947.

Mr. Millard reviewed the additional information obtained as a result of interviews with Mr. Towle, Mr. Groth, Assistant Vice President of the Helena Branch, and others in Helena, stating that the apparent fact that Mr. Towle was unaware of Larson's manipulations in the Prescott Company for such a long period was largely due to Towle's carelessness as a business man in general as well as a branch manager. This was evidenced by the fact, Mr. Millard said, that Towle had failed to carry out effectively instructions from President Peyton given in his letter of January 21, 1946, to see to it that Larson discontinued outside business activities; that Mr. Towle handled employees debt reports carelessly inasmuch as Larson reported in both 1946 and 1947 that he was not working for compensation other than for the Bank whereas Mr. Towle knew he was still working as bookkeeper for the Prescott Company; that for several years Mr. Towle kept investment securities of the Prescott Company in one of three lock boxes assigned to him at the Helena Branch to which Mr. Larson at all times had access; and by the fact that signature cards for the Prescott Company checking account at the Union Bank and Trust Company, Helena, showed that the signatures of both Towle and Larson were in force until March 23, 1950, almost 20 months after Mr. Larson ceased to serve as a bookkeeper for the Company and 16 months after Mr. Towle knew positively that Mr. Larson was an embezzler. Mr. Millard added that subsequently Mr. McConnell interviewed

Mr. Larson in California at which time Mr. Larson was asked about the possibility that Mr. Towle had not seen his debt reports for 1946 and 1947 which contained false statements as to his outside business connections and which had been forwarded to Mr. Towle from Minneapolis, to which Mr. Larson replied that Mr. Towle sometimes did not get around to opening his mail for several days.

After presenting the additional factual information obtained, Mr. Millard stated that it was apparent from the interviews made on his trip that Mr. Towle was popular among Montana bankers, including at least some of those who had learned of his action in failing to disclose Larson's defalcations for more than a year after he knew of them. However, Mr. Millard said, the investigation confirmed in all substantial details the report presented at the meeting of the Board on March 7, 1950, and as also set forth in his memorandum to Chairman McCabe dated February 14, 1950.

In commenting on Mr. Towle's attitude during the investigation, Mr. Millard stated that when Messrs. McConnell and Ueland and he arrived in Helena on March 24, Mr. Towle was obviously somewhat nervous and ill at ease, but that as discussions progressed he regained his usual self-assurance and stated that since he was being investigated he felt that he was entitled to know just what he was being accused of. Mr. Millard said that, speaking in the presence of Messrs. McConnell and Ueland and in his capacity as Director of the Division of Examinations in the light of the information developed during and since the recent examination of the Federal Reserve Bank of Minneapolis, he informed Mr. Towle that in his opinion Towle's willingness to comply with Larson's request in November 1948 that the latter's peculations be kept inviolate was a grievous error of judgment, that as the officer in charge at Helena it was Mr. Towle's responsibility to keep President Peyton informed on all matters pertinent to the Helena Branch, that by his decision he had left the branch in an exposed position for a period of more than 13 months, and that the Auditor of the Minneapolis Bank was placed in a position where because of his lack of knowledge of Larson's peculations he was unable properly to carry out the responsibilities of his office. Mr. Millard said that he also stated to Mr. Towle that he considered any officer of a Federal Reserve Bank as being morally bound to inform any banker of the facts concerning an employee of such banker who had confessed to irregularities in the handling of money. Mr. Towle's only reply to these views, Mr. Millard said, was that he had appreciated everything said by Mr. Millard both before and after the meeting in November 1948 at which Mr. Larson confessed his defalcations from the Prescott Company.

In a further comment, Mr. Millard said that Mr. Towle gave no indication so far as he observed that he now felt his course of action had been wrong and that he (Mr. Towle) stated it was "far fetched" to consider that there might be any legal or moral liability on either his part or that of the Minneapolis Bank to make good the losses sustained as a result of Mr. Larson's misconduct after Mr. Towle learned that Mr.

Larson had embezzled funds from the Prescott Company.

Mr. Millard also reported the visit to Seattle, Washington, on March 29 of Messrs. McConnell, Ueland, and himself and the discussion of the matter with officers of the National Bank of Commerce of Seattle, which had made Mr. Larson a loan of $9,500 in the spring of 1949 after he became Executive Vice President of the Conrad National Bank. He stated that, in reviewing the making of the loan and efforts to collect on it, Mr. Hoerr, Vice President of the National Bank of Commerce, made it clear that their loan to Larson was a bank accommodation loan (the Conrad National Bank being a correspondent of the National Bank of Commerce) and that Mr. Hoerr felt that, through his efforts to have the obligation taken care of, he was the one who brought the entire matter to light. Mr. Hoerr also said that the national bank examiner in Seattle reported the matter fully to the Comptroller of the Currency on December 28, 1949, and that the loan was charged off on the books of the National Bank of Commerce on December 29, 1949.

Mr. Millard stated that he and Mr. Ueland returned from Seattle directly to Minneapolis while Mr. McConnell proceeded from Seattle to Bloomington, California for the purpose of interviewing Mr. Larson who had been indicted and was free on bail awaiting trial. On April 3, Mr. Millard said, President Peyton asked him for his evaluation of the information obtained, to which he replied that for the most part those interviewed were personal friends of Mr. Towle. At President Peyton's suggestion, he (Mr. Millard) and Mr. Ueland in company with First Vice

President Powell interviewed E. O. Jenkins, President of the First Bank Stock Corporation, Minneapolis, who expressed the view that Mr. Towle's concealment of the Prescott Company shortage was criticized in some banking quarters in Montana and that, although Mr. Towle was popular with bankers in Montana, he thought probably the decision of the Minneapolis Reserve Bank with respect to how the matter should be handled would be accepted.

As to losses suffered, Mr. Millard stated that the Conrad National Bank had been reimbursed under its blanket bond for the $3,650 embezzled from that bank by Larson, that the Bank of Columbia Falls, Inc. which had loaned Larson $1,500, said now to be secured by a second deed of trust against the home he purchased in Kalispell, expected to recover that amount in full after payment of the $7,900 first deed of trust against the property held by the First National Bank of Kalispell, and that the National Bank of Commerce had attached the equity in the Kalispell house and might have a salvage from $3 to $4 thousand to apply against the $9,500 loan which had been charged off.

There followed a discussion of the additional information supplied by Mr. Millard and of Mr. Peyton's request that three members of the Board attend the joint meeting of the Minneapolis and Helena directors on April 28, 1950, at which action was to be taken on the matter. It was the unanimous view of the Board that the additional information submitted confirmed and strengthened the original impression, which had been communicated in its letter of March 8, 1950 to Mr. Powell, to the effect that Mr. Towle had failed to recognize and discharge the important responsibility resting on him as an officer of the Minneapolis Bank. This related primarily to his nondisclosure of information regarding Mr. Larson's misappropriations of funds from the Prescott Company, and on the basis of the additional information supplied by Mr. Millard it was felt that Mr. Towle was negligent and careless in other related matters which emphasized his failure to recognize his responsibility as an officer of the Bank.

With further reference to Mr. Peyton's request that members of the Board attend the meeting of the Minneapolis directors on April 28, it was suggested that, although as indicated above, participation by members of the Board in the meeting would not be desirable or necessary, it might be of assistance to the directors in their consideration of the matter to be informed of the Board's views and that, accordingly, Chairman McCabe should call Chairman Shepard of the Minneapolis Bank on the telephone and express to him the views discussed at this meeting. In this connection, there was also a discussion of the action that the Minneapolis directors might take and of alternative courses that might be followed.

The foregoing suggestion was approved unanimously with the understanding that members of the staff would prepare and submit for the consideration of the Board a draft of memorandum which Chairman McCabe might read over the telephone to Chairman Shepard.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 Monday, April 10, 1950, were approved unanimously.

Letter to Honorable Brent Spence, Chairman, Committee on Banking and Currency, House of Representatives, Washington 25, D. C., reading as follows:

"This is in response to Mr. Hallahan's letter of February 24, 1950, requesting the Board's views with respect to the bill H. R. 7340 'To amend section 5192 of the Revised Statutes with respect to the reserves of certain national banks'.

"This bill would apply only to national banks which are located in Alaska or in dependencies or insular possessions or parts of the United States outside the continental United States and which are not members of the Federal Reserve System. The bill would amend the present law to permit such national banks to carry four-fifths, instead of three-fifths, of their required reserves in the form of balances with other national banks. Stated conversely, it would require them to maintain only one-fifth of their reserves in the form of cash in vault instead of two-fifths as required by present law.

"Under existing law, national banks in Alaska and Hawaii are not required to be members of the Federal Reserve System and none of them has elected to join the system. It is the Board's view that, if Alaska and Hawaii are admitted to Statehood, national banks located in such new States, like national banks in other States, should be required to become members of the Federal Reserve System, and the Board has recommended an amendment to the pending Alaskan and Hawaiian Statehood bills (H. R. 331 and H. R. 49) which would have this effect. If the Board's recommendation "is followed, national banks in Alaska and Hawaii, after the admission of these Territories to Statehood, would become subject to the reserve requirements applicable to member banks under the Federal Reserve Act, instead of those prescribed by sections 5191 and 5192 of the Revised Statutes.

"For the present, however, the applicable requirements are those prescribed by the Revised Statutes. Since these requirements relate to national banks which are not members of the Federal Reserve System, they are administered by the Office of the Comptroller of the Currency, rather than by the Board. The change in such requirements which would be made by H. R. 7340 would not be significant in connection with national monetary and credit conditions and, from the Board's standpoint, there is no objection to the enactment of the bill.

"We have been advised by the Bureau of the Budget that it has no objection to the submission of this report to your Committee."

Approved unanimously.

Letter to Honorable Emanuel Celler, Chairman, Committee on the Judiciary, House of Representatives, Washington 25, D. C., reading as follows:

"This refers to your letter to Chairman McCabe dated February 6, 1950, requesting an expression of the Board's views on the bill H. R. 6976 to amend Title 18 of the United States Code relating to bank robbery.

"The bill would amend subsection (f) of section 2113 of Title 18 of the United States Code (the so-called bank robbery statute) so as to bring within the definition of the term 'bank' an institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation. Under the law, the Federal Savings and Loan Insurance Corporation shall insure the accounts of all Federal savings and loan associations and it may insure the accounts of building and loan associations and other similar institutions organized and operated according to the laws of the State, district or territory in which they are chartered or organized.

"The so-called bank robbery statute was first enacted on May 18, 1934 and was amended on August 23, 1935, August 24, 1937 and June 29, 1940. This statute as thus amended related to banks and did not refer to Federal savings and "loan associations or other similar financial institutions. The inclusion of Federal savings and loan associations in the present definition of the term 'bank' was brought about at the time of the codification of Title 18 approved June 25, 1948.

"The Board sees no objection to extending the protection of the robbery statute to include institutions insured by the Federal Savings and Loan Insurance Corporation. However, Federal savings and loan associations and similar institutions whose accounts are insured by the Federal Savings and Loan Insurance Corporation are not banks, and a definition of the term 'bank' which includes such institutions, even though merely for the purpose of a criminal statute, will tend to cause confusion and misunderstanding on this point. In the circumstances, the Board wishes to suggest for your consideration that the language of the bill be so revised as to eliminate the implication in the law that Federal savings and loan associations and similar institutions whose accounts are insured by the Federal Savings and Loan Insurance Corporation are to be regarded as banks.

"In accordance with the procedure outlined for the clearance of matters of this kind with the Bureau of the Budget, we have just been advised that there is no objection to the submission of this report."

Approved unanimously.

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

"Reports from the Federal Reserve Banks on their Executive Training and Development Programs, which were distributed in October 1949 by the Chairman of the Committee on Personnel of the Conference of Presidents, were reviewed with much interest. The Board is pleased to note from these reports that the need for continuous selection and training for executive positions is recognized by a majority of the Reserve Banks and that, in many instances, considerable time and effort are devoted to broadening the knowledge and experience of those possessing definite potentialities.

"In the decade which we have just entered the problem of officer replacement at the Federal Reserve Banks will be more pressing -- approximately 37 per cent of the pres-

"ent officers will retire for age within the next nine years. Some of the Banks have training programs which are adequate to meet the needs of their organizations in this period and as they look further to the future, and it is also apparent from the reports submitted that the Reserve Banks generally recognize the need for continued aggressive and sympathetic leadership for such programs, with appropriate variations to suit the needs of the individual Banks. This letter is being sent to you at the request of the Board to assure you that it feels strongly regarding the importance of these training programs and would urge that they receive continued effective recognition by the directors and presidents of all of the Reserve Banks."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.