

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 19, 1950. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of
Personnel Administration

Mr. Vest referred to the request at the meeting on March 16, 1950, that Mr. Morrill and he look into the question and make a recommendation to the Board as to whether a change should be made in the arrangements under which Mr. J. J. Smith serves as special counsel in connection with the Clayton Act proceeding against Transamerica. Mr. Vest stated that he and Mr. Morrill had considered the matter and that in view of the fact that the West Coast phase of the Transamerica hearing had been closed and the entire hearing appeared to be coming to an end, there might be motions by counsel for Transamerica in connection with which Mr. Smith's services would be very helpful, that later Mr. Smith presumably would be asked to consider the numerous legal points that will be raised in the arguments to the Board, that these would require a considerable amount of his time, that it would be desirable for the Board to have the benefit of his expert advice on these matters, that it would require a great deal of time for members

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of the Legal Division to handle matters on which Mr. Smith was already expert because of his long experience in that field, that the Legal Division did not have sufficient manpower at present to be able to meet the regular demands upon it and at the same time fill the need which Mr. Smith would supply, and that, therefore, he and Mr. Morrill recommended that there be no change in the existing arrangement with Mr. Smith.

The foregoing recommendation was approved unanimously.

Mr. Eccles, Mr. Young, Director, Division of Research and Statistics, and Mr. Sloan, Assistant Director, Division of Examinations, joined the meeting at this point.

Mr. Vardaman stated that he had received a copy of the ratings of member banks prepared by the Division of Examinations under date of March 15, 1950, that because of the nature of the information contained in the report he did not think it should be copied, but that he would suggest that it be circulated under confidential cover to each member of the Board. For reasons which he outlined, Mr. Vardaman regarded the practice of rating individual banks of doubtful value and he suggested that at a later meeting of the Board the Division of Examinations outline the procedures followed in arriving at the ratings.

There followed a discussion of the method used in preparing ratings of banks by the Board, the individual Federal Reserve Banks, and other supervisory agencies, and of the purpose of such reports, during which it was suggested that the staff consider and make a recommendation to the Board as to what if any changes should be made in

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connection with the procedure now followed and, if the existing or an amended procedure was continued, to what extent there should be collaboration with the other Federal supervisory agencies.

This suggestion was approved unanimously.

Reference was made to a memorandum from Mr. Vest dated May 18, 1950, which the Secretary read as follows:

"Representatives of the Comptroller of the Currency (Mr. Jennings, Assistant Chief National Bank Examiner, and Mr. Anderson, Counsel) came over to the Board's offices yesterday and advised Mr. Millard, Mr. Baumann, and myself that the Comptroller is prepared to make a certification to the Board as a basis for proceedings for the removal of all of the directors of the Continental National Bank and Trust Company, Salt Lake City, Utah, under section 30 of the Banking Act of 1933. We had no previous knowledge of this matter.

"Section 30 provides in effect that when the Comptroller of the Currency is of the opinion that a director or officer of a national bank has, after warning, continued 'unsafe or unsound' practices in conducting the business of the bank, he may certify the facts to the Board. The Board may then serve a notice to show cause upon such director and if, after hearing, the Board finds that there has been a continuance of unsafe or unsound practices, the Board may remove such director from office.

"The Comptroller's representatives stated that on December 1, 1949, a first warning was sent to all of the directors of the bank, including Mr. Cosgriff, the President. The warning was based upon the loaning practices and policies of the bank in relation to the capital structure, which policies the Comptroller characterized as 'unsafe and unsound'. The December 1 letter stated that the heavy general loan volume and disproportionate volume of weak loans was the main basis for the conclusion that additional capital was essential. In August 1949 the total deposits of the bank were about \$40,000,000, total loans about \$22,000,000, classified and specially mentioned loans about \$2,600,000, the ratio of capital to

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"deposits was 1 to 21, and the ratio of capital to risk assets was about 1 to 12. The Comptroller's letter requested that a substantial amount of new capital be provided and that the loaning policies be strengthened and made more conservative. As an alternative to raising additional capital, it was stated that a substantial reduction in loan volume and more conservative loan policies would be acceptable.

"In reply to this letter of warning, the bank and its president in separate letters took an adamant position with respect to the bank's policies. A more recent examination as of February 28, 1950, shows that there has been no substantial change in the bank's situation or practices.

"It is understood that the Comptroller's Office has made previous efforts to get this bank to increase its capital and it is said that the capital position of the bank in relation to the volume and character of its loans is the weakest of all national banks in the Twelfth District.

"The Comptroller's representatives advised us that after a full consideration of the matter by the Comptroller's staff and by the Comptroller, the latter was prepared to make the certification to the Board. It was also stated that the FDIC, including its Chairman, was familiar with the facts of the matter. It was the purpose of the Comptroller's representatives in visiting us to inform the Board of the facts and to discuss the matter with us in advance of actually making a certification to the Board. We said that we would like to advise the Board of the matter and discuss it here before they took any definite action.

"The question whether the practices complained of are unsafe or unsound within the meaning of the statute is a novel question. If the Comptroller makes the certification, the Board is authorized to proceed with a hearing, but the Board is not specifically required to take action. Obviously, however, if the Board should feel that it would not be desirable to undertake the proceeding, it would be preferable for the Comptroller not to make the certification.

"Under the Administrative Procedure Act no officer or employee engaged in investigative or prosecuting functions may advise in the ultimate decision which is made after hearing. Accordingly, it is believed that the matter of making a legal study of this question with a view to a

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"recommendation to the Board as to whether a proceeding should be instituted is a matter that should, under the Board's organizational set-up, be undertaken by the Board's Solicitor. This would be in accord with procedure followed in similar cases by other agencies of the Government in comparable situations."

In commenting upon the memorandum, Mr. Vest stated that the representatives of the Comptroller's office left with him and Mr. Millard, Director of the Division of Examinations, a copy of the latest examination report covering the Continental National Bank and Trust Company and of the "first warning" letter sent to it by the Comptroller under date of December 1, 1949, as well as the proposed form of certification to the Board which they contemplated issuing.

Mr. Sloan then read excerpts from the report of examination of the bank as of February 28, 1950, which indicated that there had been some improvement in its condition since the previous examination and that there appeared to be a tendency toward conservatism. The report also made it clear that the bank was solvent and that it had substantial net capital funds after allowance for all criticized assets and without taking into account the conservative value of its bank building in excess of book value. It was also stated by Mr. Sloan that the bank was not regarded by the examination division of the Federal Reserve Bank of San Francisco as a problem bank.

There followed an extended discussion of the matter during which the members of the Board who were present expressed the view that the basis for an action to remove the directors and officers of

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the bank did not appear in the report of examination or other information available. During the discussion, it was suggested that Mr. Vest call Mr. Slade, Vice President in charge of examinations at the Federal Reserve Bank of San Francisco, on the telephone for the purpose of discussing the matter with him, that he send him a copy of the Comptroller's letter of December 1, 1949 to the bank and of the proposed form of certification to the Board, and that if Mr. Slade's views were at variance in any respect with those of the Comptroller of the Currency he arrange to have him come to Washington to attend an exploratory conference by members of the staff with representatives of the Office of the Comptroller of the Currency and of the Federal Deposit Insurance Corporation. It was also suggested that at such a conference Mr. Vest indicate tentatively that consideration of the available data did not seem to justify the action proposed by the Comptroller of the Currency, and that following such discussion he report to the Board.

This suggestion was
approved unanimously.

There was an informal discussion of salaries proposed for officers of the Federal Reserve Banks of Atlanta, St. Louis, and Dallas for the year commencing June 1, 1950. A letter from Mr. Peyton, President of the Federal Reserve Bank of Minneapolis dated April 18, 1950 submitting salaries fixed by the directors of that Bank for officers for the year beginning June 1, 1950, was also considered and there

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was presented a draft of reply to Mr. Peyton as follows:

"The Board of Governors approves the payment of salary to you as President at the rate of \$25,000 per annum and to Mr. O. S. Powell as First Vice President at the rate of \$18,000 per annum for the period June 1, 1950, through February 28, 1951, the date the statutory terms of office for these positions will expire. According to your letter of April 18, 1950, these are the rates which were fixed by the board of directors.

"The Board of Governors also approves the payment of salary to the following officers at the rates indicated, which, according to your letters of April 18, 1950, and May 5, 1950, are the rates fixed by the board of directors, for the period June 1, 1950, through May 31, 1951:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
A. W. Mills	Vice President & Cashier	\$14,000
O. R. Preston	Vice President	14,000
H. G. McConnell	Vice President	13,000
Sigurd Ueland	Vice Pres., Counsel & Secretary	13,000
H. C. Core	Vice President in Charge of Personnel	10,000
E. B. Larson	Vice President	10,000
M. H. Strothman, Jr.	Assistant Vice President	9,000
A. R. Larson	Assistant Vice President	8,500
M. E. Lysen	Operating Research Officer	8,000
W. E. Peterson	Assistant Cashier	7,500
A. W. Johnson	Assistant Cashier	6,000
Christian Ries	Assistant Cashier	6,000
G. M. Rockwell	Assistant Cashier	6,000
M. O. Sather	Assistant Cashier	6,000
W. H. Turner	Assistant Cashier	6,000
C. A. Van Nice	Assistant Cashier	6,000
C. E. Tillander	Chief Examiner	7,000
O. W. Ohnstad	Auditor	8,500
J. M. Peterson	Director of Research	10,000
F. L. Parsons	Associate Director of Research	9,000

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<u>Name</u>	<u>"Helena Branch"</u> <u>Title</u>	<u>Annual Salary</u>
C. M. Groth	Vice President	\$9,000

Approved unanimously.

Mr. Vardaman withdrew from the meeting at this point.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on May 13, by the Federal Reserve Bank of San Francisco on May 16, by the Federal Reserve Bank of St. Louis on May 17, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on May 18, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman McCabe reported briefly on further developments in connection with small business legislation. There was a brief discussion of the matter but no new conclusions were reached.

Mr. Szymczak referred to the discussion at the meeting on March 16, 1950, of an application filed by Bank of America National Trust and Savings Association, San Francisco, under date of February 17, 1950, requesting permission to establish a branch on the Island of Guam, Marianas Islands, and to memoranda from the Division of Bank Examinations dated March 13 and 22, April 10, and May 3 and 16 transmitting information with

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respect to the application and recommending that, subject to clearance with the Comptroller of the Currency, it be approved with the proviso that the applicant be the successful bidder for the Bank of Guam now owned and operated by the United States Navy. Mr. Szymczak stated that, following informal discussions of the matter with the Navy Department and the Office of the Comptroller of the Currency, a letter was sent to the Comptroller of the Currency under date of May 16, 1950, asking the views of that Office with respect to granting permission for establishment of the proposed branch. He also said that the Navy planned to dispose of the Bank of Guam not later than July 1, 1950, that it had advertised for bids, that the Bank of America N.T. & S.A. was the only bank which had submitted a concrete offer for the bank, that the Bank of America N.T. & S.A. had added somewhat to its capital funds since May 19, 1949, when the Board declined to approve additional foreign branches in Germany because of its low ratio of capital funds to risk assets, that it had announced plans for obtaining approximately \$70 million of additional capital, and that under all of the circumstances he felt it would be desirable to approve the application, provided the Comptroller of the Currency did not indicate an objection.

Following a discussion, upon motion by Mr. Szymczak, it was voted unanimously to authorize the Bank of America N.T. & S.A. to establish a foreign branch at

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Agana, Guam, provided the Office of the Comptroller of the Currency indicated in response to the Board's letter of May 16, 1950 that it had no objection to establishment of such a branch.

Secretary's note: Under date of May 19, 1950, Deputy Comptroller of the Currency Robertson advised that the Comptroller's office raised no objection to the granting of the branch in question in the event the Board of Governors was of the opinion that the application should be acted upon favorably. Accordingly, pursuant to the action at this meeting, the following letter was sent through the Federal Reserve Bank of San Francisco to the Bank of America N.T. & S.A. under date of May 23, 1950:

"The Board of Governors of the Federal Reserve System authorizes Bank of America National Trust and Savings Association, San Francisco, California, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch at Agana, Guam, and to operate and maintain such branch subject to the provisions of such section; upon condition that

- (a) unless the branch is actually established and opened for business on or before December 1, 1950, all rights granted hereby shall automatically terminate on such date; and
- (b) Bank of America National Trust and Savings Association is selected by the Department of the Navy as the successful applicant to succeed the present banking operations of Bank of Guam.

"In taking the foregoing action, the Board has been influenced by the apparent necessity for maintenance of banking facilities on Guam and the desire of the Navy to dispose of the Bank of Guam; and it has taken into consideration the general type of business to be conducted on the Island and other factors which are peculiar to this case."

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Mr. Sloan withdrew from the meeting at this point and Mr. Marget, Adviser on International Finance, joined the meeting.

Mr. Szymczak stated that Mr. Exter, an Economist in the Division of Research and Statistics who is now in Ceylon assisting the Government of that country in the establishment of a central bank, had written under date of May 4, 1950, stating that he had been offered the Governorship of the central bank for a period of one year, that he would like to accept the offer, but that he would not want to do so unless he could be assured that he would be able to return to the Board as a member of the staff at the end of that time. Mr. Szymczak went on to say that the matter had been taken up with the State Department and that the Department, after consulting with the American Ambassador to Ceylon, stated that the Prime Minister of Ceylon felt that the British would regard Mr. Exter's appointment to the Governorship of the bank as a natural consequence of his past relationship as adviser to the Government, that Mr. Exter would not be a member of the Ceylon group negotiating an agreement on sterling assets, and that while the possibilities of embarrassment to the United States arising out of Mr. Exter's acceptance of the Governorship could not be entirely ruled out, he (the Ambassador) felt such possibilities were so small they should not prevent his acceptance of the position for a one year period.

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The members of the Board who were present expressed the view that Mr. Exter should not be granted a leave of absence either with or without pay to accept the position as Governor of the central bank of Ceylon, and that if he wished to accept the offer it would be necessary that he resign as a member of the Board's staff.

During the ensuing discussion, Mr. Young stated that because of his qualifications, Mr. Exter was adaptable to various assignments in the Board's organization and that if he decided to resign and wished to return to the Board's employ at the end of a year there would be no difficulty in placing him somewhere in the Research Division at his present salary.

Mr. Vest stated that there was a legal question in connection with any possible leave of absence inasmuch as the Constitution of the United States provides that no person holding any office of profit or trust under the United States shall, without the consent of Congress, accept any office or emolument from any foreign State. He stated, however, that if Mr. Exter severed all connections with the Board there would be no objection from a legal standpoint to assuring him that if at some specified future time he wished to return to the Board's organization he would be re-employed.

Chairman McCabe stated that while he would not approve the granting of a leave of absence to Mr. Exter, he would suggest that he be informed that if he wished to accept the Governorship of the Ceylon

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central bank the Board would accept his resignation with the understanding that if within 12 months from the date of such resignation he applied for re-employment as a member of the Board's staff he would be re-employed at his present rate of salary.

Chairman McCabe's suggestion was approved unanimously with the understanding that a cable would be sent to Mr. Exter in the following form:

"Your letter May 4. If you wish to accept Governorship of Central Bank, Board will accept your resignation with understanding it will reemploy you at your present salary if you file application within not more than twelve months from date of resignation, which should be not later than effective date of other appointment."

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:

Memorandum dated May 13, 1950, from Mr. Vardaman, recommending an increase in the basic salary of Mrs. Laura K. Thomas, stenographer in his office, from \$3,275 to \$3,475 per annum, effective May 28, 1950.

Approved unanimously.

Memorandum dated May 13, 1950, from Mr. Leonard, Director

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of the Division of Bank Operations, recommending that the resignation of Mrs. Ladye Sue C. Roelle, a statistical clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business June 2, 1950.

Approved unanimously.

Memorandum dated May 15, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Tynan C. Smith, as an Economist in that Division, with basic salary at the rate of \$9,000 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved, Mr. Vardaman not voting.

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

"Reference is made to your letter of May 15, 1950, addressed to Mr. Millard, Director of the Division of Examinations, and the attached copy of a letter addressed to the Board of Governors dated April 6, 1950, regarding the request of The Cleveland Trust Company, Cleveland, Ohio, for an extension of at least 60-days time within which the establishment of its proposed branch at Middleburgh Heights, Ohio, may be accomplished under the approval granted by the Board of Governors on January 18, 1950.

"A search of our files discloses that we do not have the original of your letter dated April 6,

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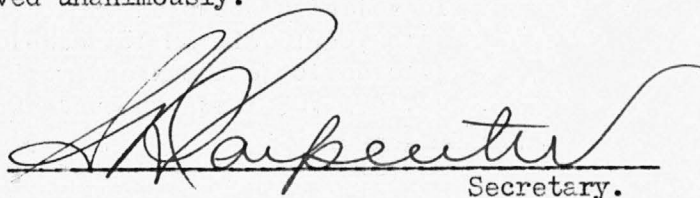
"1950. In view of the circumstances described therein and your favorable recommendation, the Board extends to October 2, 1950, the time within which establishment of the branch may be accomplished."

Approved unanimously.

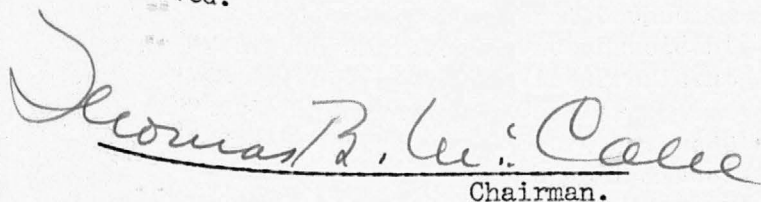
Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire May 18. Board approves three months renewal to August 28, 1950 by your Bank to Banco Central del Ecuador of the \$2,000,000 balance of the \$3,400,000 loan against gold maturing May 29, on the same terms and conditions as apply to the outstanding loan and on the understanding that \$1,400,000 of the maturing loan will be repaid from the proceeds of Ecuadoran exports or by the sale of gold held in your vaults for the account of the Banco Central. It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.


Secretary.

Approved:


Chairman.