

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 2, 1950. The Board met in the Board Room at 10:45 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Millard, Director, Division of Examinations
Mr. Baumann, Assistant General Counsel
Mr. Sloan, Assistant Director, Division of Examinations

Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on May 31, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on June 1, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Before this meeting each member of the Board had been furnished a copy of a memorandum from Messrs. Millard and Vest dated June 1, 1950 and reading as follows:

"In accordance with the instructions of the Board at the meeting on May 19, representatives of the Board's staff met with staff representatives of the Comptroller of the Currency and the FDIC to discuss further the proposed certification by the Comptroller to the Board with a view to the removal of the directors of the Continental National Bank and Trust Company, Salt Lake City, Utah, under section 30 of the Banking Act of 1933. Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, attended the meeting. Mr. Jennings and Mr. Anderson represented the Comptroller's Office, and Mr. Shearer and Mr. Aycock represented the FDIC.

"We pointed out that action by the Board in a case of this kind would be reviewable by the courts; that the failure of the bank to increase its capital, being negative in character and a matter for stockholders' action, would hardly be a proper basis for a section 30 proceeding; that the overexpansion of loans in relation to capital is a relative matter and is actually tied in with the amount of the bank's capital; that despite the substandard quality of many of the bank's loans, the losses of the bank have not been abnormal and the total amount of paper classified doubtful and loss in the most recent examination report is relatively small; that the most recent examination report contains some statements of the examiner indicating some little improvement and other somewhat complimentary language on his part; that even if the proceeding were successful, there would seem to be nothing to prevent the stockholders from electing other directors to carry out the policies desired. Mr. Slade also stated his views, which in general were in accord with those of the Board's representatives.

"The matter was thoroughly discussed. The Comptroller's representatives took the position that the bank was one of the worst, if not the worst, national bank in the United States from the standpoint of ratio of capital to risk assets and that something should be done to correct the situation. They felt that a section 30 proceeding for the removal of directors offered the only practicable solution and that this was much preferable to a proceeding

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"by the FDIC to terminate the bank's insurance, for the latter would necessarily force the bank to liquidate as a national bank. They argued that the question whether the bank was engaged in unsafe or unsound banking practices was a matter of expert opinion and that if the Board, after hearing and on the basis of the certification by the Comptroller, found that it was so engaged, the courts probably would not overrule the Board. Even if the Board should lose the case, they felt that the supervisory authorities would then be in a good position to go to Congress and ask for appropriate amendatory legislation.

"The FDIC representatives felt that the situation was definitely a bad one and that something should be done about it. They did not commit themselves definitely, however, on whether or not the Board would have a good case in undertaking to remove the directors of the bank because of its failure to increase its capital or because of its persistent liberal loan policy in relation to capital. They said that they had brought a number of proceedings against banks for the termination of insurance in which factors of this kind were alleged, but in all of these cases there had also been other factors which gave other legal grounds for action. None of these proceedings had been considered by the courts. When asked whether the FDIC would proceed against this bank for the termination of insurance in the event the Board did not act in the matter, the FDIC representatives indicated that they had not fully considered the matter and that they were not prepared to give a definite answer to the question at this time. They referred to the fact, however, that Mr. Harl had advised Deputy Comptroller Robertson that, if the section 30 proceeding did not go through, to let him know and he would then consider termination proceedings by the FDIC.

"The Continental National Bank and Trust Company is one of a group of nine banks in which the Cosgriffs have substantial ownership or control. Three are national banks, one a State member bank, and of the others four are non-member insured and one nonmember uninsured. Nearly all of these banks have low capital ratios and some of them are in approximately the same situation in this respect as the Continental National. For this reason the Board's representatives suggested several times the desirability of making a simultaneous examination of all of these banks in order to get as full and complete information as possible

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"with respect to all matters, and particularly with respect to such matters as the possible switching of loans among the institutions, before anything else is done. We also suggested the desirability of sitting down with Mr. Cosgriff and trying to work out some arrangement under which the bank might obtain more capital, as for example by the sale of its building and the use of the proceeds to increase the capital of the bank. Mr. Slade particularly had indicated that such a conference with Mr. Cosgriff might possibly be productive of some good results and would do no harm particularly if representatives of all three agencies participated.

"Mr. Jennings of the Comptroller's Office, said that, subject to checking with the Comptroller, he felt that they would be agreeable to a simultaneous examination but would not be agreeable to permitting such an examination to delay the certification by the Comptroller to the Board. He also indicated that he thought they would invite Mr. Cosgriff to come to Washington to discuss the matter before making the certification, but that they would not be willing to have any representative of the Comptroller go to Salt Lake City or to San Francisco to discuss the matter with Mr. Cosgriff.

"It is our view that it would be desirable for the Board to authorize us to advise the Comptroller's representatives substantially as follows: In view of the fact that practically all of the Cosgriff banks are in a relatively weak capital position and the unsound practices, if any, probably would apply to all, the Board feels that a simultaneous examination is desirable and would be glad to arrange with the Federal Reserve Bank to participate in such an examination so far as the State member bank is concerned; that since the purpose of the examination would be to develop what information there might be that would have a bearing upon a determination as to whether there should be a section 30 proceeding, any further steps toward such a proceeding should be deferred until the results of such an examination could be considered; that at some appropriate time, probably after such an examination, one representative each from the Comptroller's Office, the FDIC and the Federal Reserve Bank should sit down with Mr. Cosgriff and discuss the matter fully with him, with the hope to

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"obtaining some additional capital or change in loaning policies; and that such a conference would have more chance of being productive if held in San Francisco or Salt Lake City. This would contemplate that we would not voluntarily say to the Comptroller whether or not the Board would proceed with a section 30 proceeding if the Comptroller made the certification, but if pressed, that the Board's representatives would say that the Board hoped that the Comptroller would not make the certification at this time and, if he insists on doing so, the Board's present feeling is that it would not be advisable for it to undertake such a proceeding."

In response to a question from Chairman McCabe, Mr. Slade stated that he concurred in the recommendation contained in the foregoing memorandum. Mr. Slade also stated that while the Bank did not have sufficient capital funds and engaged in loaning policies which were not desirable, in his opinion there was no basis for action by the Federal Deposit Insurance Corporation to withdraw insurance of deposits from the Bank since it was solvent and the conditions indicated by the most recent examination as of February 28, 1950 were not such as to cause risk of loss to the Federal Deposit Insurance Corporation.

Mr. Riefler joined the meeting at this point.

During an extended discussion of the loaning practices of the Continental National Bank and Trust Company and of the quality of its assets as indicated by the latest examination report, Chairman McCabe suggested that Mr. Vest and Mr. Millard inform the representatives of the Office of the Comptroller and the Federal Deposit

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Insurance Corporation informally that the Board felt a simultaneous examination of the nine banks in which the Cosgriffs have substantial ownership or control should be undertaken by the respective Federal Supervisory Agencies for the purpose of developing information that would have bearing upon a determination as to whether there should be a Section 30 proceeding or what other steps if any should be taken, and that following that examination it might be desirable to hold a conference with Mr. Cosgriff. Chairman McCabe also suggested that if, in their discussion, the question arose as to whether the Comptroller should certify the case to the Board prior to the completion of the examination, Messrs. Vest and Millard should indicate that the Board would take no action in connection with such a certification until the examination had been completed and a conference held with Mr. Cosgriff.

The foregoing suggestion was approved unanimously.

At this point Messrs. Millard, Sloan, Baumann, and Slade withdrew from the meeting.

Mr. Szymczak referred to the discussion at the meeting on March 7, 1950 of appointments to be made in February 1951 of Presidents and First Vice Presidents at the Federal Reserve Banks, stating that since then the Personnel Committee had reviewed the officers in charge of Federal Reserve Bank branches and reached the conclusion that the directors of the Federal Reserve Banks concerned should

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be giving thought to the replacement of managing officers at the Baltimore, Birmingham, Nashville, Detroit, Denver, Omaha, and Portland branches who would retire within the next one to three years, in order that there would be an adequate period of training for their successors. He also stated that the Personnel Committee felt that when Chairman McCabe and he discussed with the Chairmen of the Federal Reserve Banks the appointments of Presidents and First Vice Presidents for terms beginning March 1, 1951, in accordance with the action of the Board at the meeting on March 7, it would be desirable to take up the matter of successors to the officers in charge of the branches mentioned. Mr. Szymczak added that while it was the feeling of the Personnel Committee that at no other branch was the situation such as to require action at this time, it was recognized that some of the officers in charge might not be entirely satisfactory and that it might also be desirable to discuss some of these cases with the Chairmen.

In this connection, Chairman McCabe suggested that additional steps were needed to develop managing officers at Federal Reserve Bank branches who understood the broader functions of the Federal Reserve System and who could present such matters effectively to bankers and others in their communities. To this end, he raised the question of discussing informally with the Chairmen of one or two of the Federal Reserve Banks the desirability of assigning an

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economist to a Federal Reserve branch for an experimental period to assist the managing officer in presenting material to the Board of directors of the branch and to others. He also renewed his suggestion that the Presidents' Conference invite one or two of the managing officers of the Federal Reserve Bank branches to attend Presidents' conferences so that they might receive the benefit of the discussions at these meetings.

The members of the Board who were present indicated that they would not object if Chairman McCabe discussed these suggestions with the Chairman of the Presidents' Conference and the Chairmen of such Federal Reserve Banks as he felt he might wish.

Mr. Morrill stated that Mr. Evans informed him over the telephone this morning that he stopped in Helena on his return from the Pacific Coast, that he met with the directors of the Helena branch and Mr. Groth, Vice President in charge of the branch, that the directors informed him fully of the discussions of the Towle matter and of the visit of Messrs. Harris and MacHaffie to the Board's offices on May 1, 1950, and that he was assured there had been no unfavorable reaction on the part of Montana bankers to the course of action taken by the Minneapolis Reserve Bank in relieving Mr. Towle of his official position and placing him on leave of absence to the end of this year. He added, Mr. Morrill said, that the primary concern of the Helena branch directors appeared to be

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that Mr. Towle's retirement allowance be supplemented if and when he applied for retirement at the end of this year.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman 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 June 1, 1950, were approved unanimously.

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

"In accordance with the request contained in your letter of May 29, 1950, the Board approves the appointment of William Coleman Reddick, Jr., as an assistant examiner for the Federal Reserve Bank of Dallas. Please advise us of the date upon which the appointment becomes effective and also as to the salary rate."

Approved unanimously.

Letter prepared for the signature of the Chairman to Honorable John W. Snyder, Secretary of the Treasury, Washington 25, D. C., reading as follows:

"Recently, upon learning of the award of merit given by the Secret Service to the manager of the Louisville branch of the Federal Reserve Bank of St. Louis for his work in conducting clinics for the detection of counterfeit currency, the Board advised the other Federal Reserve Banks of the award and suggested that they might wish to consider the establishment of similar clinics in their districts. In their replies the Federal Reserve Banks pointed

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"out the work which they have been doing in this field, and several indicated that they intended to pursue the idea of holding such clinics.

"In a subsequent letter to the Board, the Federal Reserve Bank of New York has expressed considerable concern over the marked increase in the number of counterfeit Federal Reserve notes appearing in that district, particularly during the last 18 months. The following table shows the number of counterfeit Federal Reserve notes detected by the Reserve Bank in the past five years and the first quarter of 1950:

Year	No. of 10's	No. of 20's	Total all denominations
1945	89	41	426
1946	87	46	349
1947	133	106	554
1948	1,346	422	2,143
1949	2,524	792	4,020
1st Quarter 1950	483	153	781

"The number of counterfeits detected by a Reserve Bank, however, is, at best, an imperfect measure of their prevalence within the district, as currency deposited with a Federal Reserve Bank has already passed the scrutiny of experienced money handlers in the banks of deposit.

"Inasmuch as 85 per cent of the currency in circulation in the United States consists of Federal Reserve notes, the Federal Reserve Bank has raised the question of the desirability of a study looking to changes in the design of these notes which would make counterfeiting more difficult and at the same time make it easier for the public to detect counterfeits. The Board is in agreement with this suggestion and has asked that the matter be brought to your attention for such consideration as you might wish to give to it. We realize that changes in plates or in the paper used might increase the cost of the Federal Reserve notes, but I can assure you that the Reserve Banks would gladly pay such increased cost if that would accomplish the desired result.

"The Board appreciates very much the excellent work that is being done by the Treasury in suppressing the circulation of counterfeit currency and assures you of the System's desire to cooperate in every way it can in this work."

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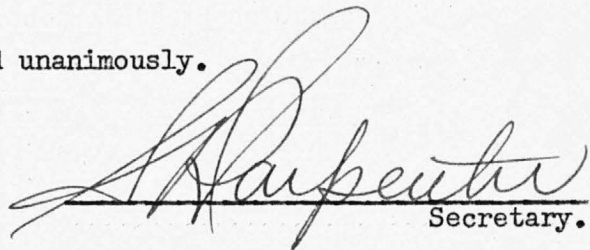
Approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve

Bank of Minneapolis, reading as follows:

"As you will recall, the question of administration of investments of the Retirement System was discussed at a meeting of the Executive Committee of the Retirement System on December 14, 1949, at which some of the members of the Board were present; the Board subsequently advised Mr. Gilbert as chairman of that committee that it was of the opinion that the Retirement System should employ a qualified individual as an Investment Manager who would work under the direction of the Investment Committee and that it would accept temporarily the action taken at the meeting of the Executive Committee on December 14, 1949, but that it was requested that the Committee make a thorough investigation of the feasibility and desirability of obtaining the services of a competent Investment Manager and submit a report thereon prior to the annual meeting of the board of trustees of the Retirement System in the spring of 1950 so that a final decision on the matter could be reached at that time. A subcommittee of the Retirement System Investment Committee has submitted a report on this subject and the Board would appreciate having a discussion of the matter with the Presidents at their forthcoming conference."

Approved unanimously.



Secretary.