

5/26/50 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 26, 1950. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Millard, Director, Division of
Examinations
Mr. Chase, Assistant Solicitor

At the request of the Board members, Mr. Morrill reviewed developments during the past few days relative to the action taken on behalf of the Board by its Solicitor, Mr. Townsend, in petitioning the United States Circuit Court of Appeals for the Ninth Circuit in San Francisco, California, to enjoin Bank of America National Trust and Savings Association, San Francisco, California, from acquiring the assets of some 21 banks controlled by Transamerica Corporation. Mr. Morrill stated that the Court issued a temporary restraining order on June 23, following which Bank of America filed a motion to vacate the order; that this motion was heard by the Court on June 24 with extensive arguments on both sides, and that Mr. Townsend had been accompanied in court by Mr. O'Keefe, attorney who is assisting the Solicitor in connection with the Transamerica

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proceedings, and Mr. O'Kane, Assistant General Counsel of the Federal Reserve Bank of San Francisco. Mr. Morrill stated further that the three judges of the Circuit Court who heard the argument on the motion handed down an order on Saturday, June 24, 1950, enjoining Bank of America from taking over the assets of the banks in question until after final determination by the Board of the proceeding instituted by it under the Clayton Act. Shortly after the order was released Mr. Morrill said, headlines appeared in West Coast newspapers to the effect that President Giannini, of Bank of America, had been advised by his counsel that the court order was invalid and that he had the right under authority granted by the Comptroller of the Currency and the State banking authorities to proceed to acquire the assets of the banks and open them as branches on June 26; and that statements to this effect had also been broadcast over the radio.

Mr. Morrill made the further statement that, in these circumstances, Mr. Townsend suggested to him that the Board authorize him to take such action as might be appropriate in the circumstances to bring the apparent disregard of the restraining order to the attention of the court. To carry out that suggestion the following telegram to Mr. Townsend was approved by the available members of the Board this morning and was sent to Mr. Townsend:

"Referring telephone conversations with Morrill.
In view of information with respect to possible plan
of Bank of America to go forward with acquisition of

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"assets of 21 banks controlled by Transamerica and to open the offices as branches, Board of Governors has authorized and directed you to cause the facts with respect to this matter to be brought formally to the attention of the United States Circuit Court of Appeals and to take such other action in this connection as may be necessary and appropriate in the circumstances."

The wire was approved unanimously, and its sending was unanimously ratified and confirmed.

Mr. Morrill then stated that he had inquired of Mr. Townsend whether someone from the Board's offices should advise Mr. Bergson, of the Attorney General's office, and the Attorney General of recent developments in the proceedings, to which Mr. Townsend responded that he had written a letter to Mr. Bergson informing him what had taken place and that a copy of that letter and its enclosures had also been sent to the Board.

Mr. Townsend also asked, Mr. Morrill said, that a request be made of the Comptroller of the Currency that, in view of the action of the court in issuing the restraining order, he notify Bank of America that it should not take any action to open any branches so long as the order of the court was outstanding. Upon learning of this development yesterday, Mr. Szymczak suggested that the request of the Comptroller of the Currency be in writing. In response to this suggestion the following letter was prepared yesterday evening and with the informal approval of the available members of the Board

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was sent to Mr. Delano at his home by messenger last night:

"As you perhaps know, the Board of Governors on Friday, June 23, 1950, through its Solicitor, filed in the Circuit Court of Appeals for the Ninth Circuit in San Francisco, California, a petition to enjoin Bank of America, National Trust & Savings Association, San Francisco, California, from acquiring the assets of some 21 banks controlled by Transamerica Corporation which have been the subject of recent correspondence between the Board of Governors and your office. The Court granted a temporary restraining order and yesterday, following a hearing on a motion filed on behalf of Bank of America, National Trust & Savings Association, to vacate the order, the Court by unanimous action denied the motion and issued an injunction to restrain Bank of America from acquiring the assets of the banks in question until after final determination by the Board of Governors of the proceeding instituted by it under the Clayton Act.

"The Board has been informed today that newspapers and radio in San Francisco have been carrying statements to the effect that Bank of America intends to disregard the order of the Court and open the offices of the 21 banks tomorrow morning as branches of Bank of America under permits issued by your office.

"In the circumstances, the Board of Governors requests that you notify Bank of America, National Trust & Savings Association, immediately that, in view of the information which you have received from the Board of Governors with respect to the unanimous action of the Court, the national bank should not take any action to open the branches referred to as long as the order of the Circuit Court of Appeals remains in effect.

"This letter is being sent to you at your home tonight by special messenger so that you may have the request of the Board in time to communicate with the national bank before the opening of the banking offices in question tomorrow morning."

Mr. Szymczak stated that on Saturday, June 24, Mr. Townsend requested that we undertake to ascertain the manner in which the assets of the twenty-one banks would be acquired and that he (Mr.

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Szymczak) suggested that Mr. Chase get the information by telephone from Deputy Comptroller of the Currency Robertson. He also said that after the conversation with Mr. Robertson, Mr. Chase sent the following wire to Mr. Townsend, the wording of which was approved by Mr. Robertson over the telephone.

"Deputy Comptroller of the Currency J. L. Robertson advised me this morning that he understood the take over of the banks which Bank of America proposes to convert into branches on June 26 pursuant to Comptroller's permits, is to be accomplished by a sale of assets and assumption of liabilities. He said there was no federal control over such a sale and assumption, and that therefore his office had not approved it and had no power to approve it or disapprove it. He said the proposed take over did not involve a consolidation or merger, and that the liquidation of the banks would follow the sale of their assets."

Mr. Szymczak made the further statement that on Sunday night while the letter referred to above was being prepared, Mr. Robertson called on the telephone to say that the Office of the Comptroller had received a request from counsel of Bank of America for something to offset statements which the bank's counsel alleged Mr. Townsend made during the hearing on Saturday on the motion to vacate the temporary restraining order to the effect that in granting the permits to open the branches in question the Comptroller of the Currency had not taken the public interest into consideration and that the Board did not know until a few days ago that the permits to establish the branches in question were to be granted by the Comptroller of the Currency. Mr. Szymczak went on to say that Mr. Robertson said that

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the statements were not true because the Comptroller of the Currency had considered the public interest and the Board had known for a long time that the permits were to be issued. Mr. Szymczak added that he reviewed for Mr. Robertson's information the reasons why the Board felt the branch permits would not be issued and told him that he would try to ascertain what Mr. Townsend had said on the two matters referred to above. At his request, he said, after the letter to the Comptroller of the Currency was sent on Sunday evening, Mr. Carpenter called Mr. Robertson and gave him the substance of the letter, to which Mr. Robertson replied that the Comptroller of the Currency had no authority to withdraw the permits which had been issued or to tell the Bank of America not to go ahead with the establishment of the branches.

At this point the letter referred to above was approved unanimously and its sending was unanimously ratified and confirmed.

During the ensuing discussion, Mr. Morrill was called from the room and upon his return stated that he had just talked with Mr. Townsend by telephone and that the latter stated that the story had just come over the radio that Bank of America was going to open the branches this morning, that in these circumstances he was giving careful consideration to the steps that he should take to bring the circumstances to the attention of the court, and that there was possibility that the court might ask him to serve as an officer of

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the court to institute a citation for criminal contempt. In that connection, Mr. Morrill said, Mr. Townsend pointed out that the fine usually imposed for civil contempt probably would not be a deterrent to Bank of America as the fine would simply be charged as a business expense, that the action of the bank was such as to invite punitive action which would mean more than a fine, and that if the bank were cited for criminal contempt it would be a case between the United States and the bank with which the Board would have no official connection.

At this point, Mr. Evans joined the meeting.

Mr. Morrill said he informed Mr. Townsend of Mr. Robertson's telephone call to Mr. Szymczak in connection with the two statements alleged by counsel for Bank of America to have been made by Mr. Townsend at the hearing on Saturday, and that Mr. Townsend made the unqualified reply that he did not make the statements, that neither in the papers filed in the court nor in his statement at the hearing had he mentioned the relation of the Comptroller to the proceeding until the subject was raised by the attorneys for the other side, and that in discussing the statement of counsel for Bank of America that the Board knew for some time that the branches were to be granted he replied that even if that were true it would have no legal effect on the proceeding for the reason that had the Board been guilty of neglect it could not have estopped the court from

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protecting its jurisdiction. Mr. Townsend stated to the court, Mr. Morrill said, that the Board knew the applications were pending and in that connection presented correspondence between the Board and the Comptroller of the Currency on that subject, after which he said that the Board had every reason to assume, on the basis of information which could be supplied if the court should think it important, that the branches were not going to be granted.

Consideration was then given by the Board to the questions (1) whether the new developments on the case should be brought to the attention of the Attorney General and (2) what should be said to the Comptroller of the Currency with respect to the two statements alleged by counsel for Bank of America to have been made by Mr. Townsend at the hearing on Saturday.

In connection with the second point, consideration was given to the desirability of the Chairman calling the Comptroller of the Currency by telephone. It was suggested, however, that it would be preferable first to ask Mr. Townsend to suggest the nature of the reply that should be made.

This suggestion was unanimously agreed to.

Mr. McCabe then asked that a letter be prepared to the Attorney General enclosing a copy of the letter from Mr. Townsend sent to Mr. Bergson and briefly reciting the developments as the

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Board understands them since the letter from Mr. Townsend to Mr. Bergson was written.

It was agreed unanimously that such a letter should be sent to the Attorney General by messenger as soon as it could be prepared.

The letter sent in response to this action was as follows:

"For your information, I enclose a copy of a letter dated June 24, 1950, and its enclosures, which J. Leonard Townsend, the Board's Solicitor, addressed to the Honorable Herbert Bergson, Assistant Attorney General, regarding the petition which the Board of Governors filed in the United States Court of Appeals for the Ninth Circuit in aid of the jurisdiction of that Court against Transamerica Corporation and Bank of America National Trust and Savings Association.

"Supplementing the information contained in the letter, Mr. Townsend advised us by telephone that late in the day of June 24, after the oral argument referred to in the last paragraph of the letter, the three judges who heard the original ex parte argument handed down a unanimous decision dismissing the motion to dissolve the temporary restraining order and granting a permanent injunction restraining Bank of America National Trust and Savings Association from acquiring the assets or banking business of the banks listed in the petition. We have not received a copy of the Court's decision or of the injunction, and cannot give you their exact language. However, we will furnish you with copies as soon as we receive them.

"Subsequently, Mr. Townsend advised us that on Sunday, June 25, newspapers and radio in San Francisco were carrying statements to the effect that Bank of America intended to disregard the Order of the Court and open the offices as branches of Bank of America under permits issued by the Comptroller of the Currency. The Board addressed a letter to the Comptroller of the Currency dated June 25 advising him accordingly. A copy of that letter is enclosed. At the time of dictating this letter we have no information as to any later developments."

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Chairman McCabe stated that he called Chairman Spence of the House Banking and Currency Committee this morning to say that the Budget Bureau would send to him for the information of his Committee, a copy of the letter which the Director of the Budget sent to the Chairman of the Federal Deposit Insurance Corporation on February 10, 1950, stating that bill S. 2822, to amend the Federal Deposit Insurance Act, would be in accordance with the President's program only if it were revised to restore the existing language of the Federal Reserve Act with respect to examinations of State member banks by the Federal Deposit Insurance Corporation only with the written consent of the Board of Governors.

Chairman McCabe withdrew from the meeting at this point.

The Secretary stated that, at the Chairman's request and in accordance with the action taken at the meeting on June 23, 1950, he called Mr. Staats, Assistant Director of the Bureau of the Budget, who stated that in response to the Board's request he would send to Chairman Spence the letter to the Chairman of the Federal Deposit Insurance Corporation referred to above and that he thought the Board would be entirely justified in taking such action, including talking to Chairman Spence and otherwise, as it felt was necessary to see to it that the views of the President as stated in the letter to the Federal Deposit Insurance Corporation were carried out.

Mr. Carpenter made the further statement that, at the Chairman's request, he talked further with Mr. Staats about getting

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a statement that the Administrative Services Act and the Reorganization Act No. 18 were not applicable to the Board, and that Mr. Staats did not see why it would not be possible to get a statement from the General Services Administration to the effect that the Reorganization Act was not applicable to the Board. He also said, Mr. Carpenter stated, that he had not been aware of the fact that the express authority of the President contained in the Administrative Services Act to exempt agencies from the Act would expire on June 30, 1950, and that he would look into that point and call back on Monday, June 26. Mr. Carpenter stated that he told Mr. Staats that in the circumstances the Board would like very much to have a letter from the President along the lines suggested in Chairman McCabe's letter to Mr. Staats on June 1, 1950.

In a further discussion, the members present expressed the opinion that Chairman McCabe should say to Chairman Spence that if anything were brought out in the executive session of his Committee, which it was understood was to be held on June 27, 1950, for the purpose of considering certain features of the bill to amend the Federal Deposit Insurance Act, in which the Board has an interest, the Board would like to be given the same opportunity to discuss the matters with the Committee in executive session as was given to the representatives of the Federal Deposit Insurance Corporation.

Thereupon the meeting recessed and reconvened at 2:30 p.m.,

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there being present Messrs. McCabe, Szymczak, Draper, members of the Board, and Messrs. Carpenter, Thurston, Riefler, Thomas, Vest, Young, Solomon, Hackley, Fauver, and Schmidt of the Board's staff.

The draft of statement to be made by Chairman McCabe before the Senate Banking and Currency Committee tomorrow on pending legislation to provide aid to small business was discussed paragraph by paragraph and numerous revisions were made with the understanding that the revised statement would be presented by Chairman McCabe at the hearing as a statement made on behalf of the Board of Governors.

During the discussion there was delivered to the Chairman a letter just received from the Comptroller of the Currency, reading as follows:

"Attached hereto is a copy of a telegram today sent to Mr. L. M. Giannini, President, Bank of America National Trust and Savings Association, San Francisco, California, the contents of which are self-explanatory."

The wire enclosed with the letter was in the following form:

"In connection with the injunction issued against your bank on June 24, your counsel has requested advice for presentation to court regarding the allegation that although this office granted certain branch permits to your bank it did not consider the public interest involved in the related acquisition of assets and assumption of liabilities of banks being replaced by the branches. You are advised that whenever a national bank applies for authority to establish a branch the approval or disapproval of the comptroller is based on a study and investigation of all relevant factors, one of the most important of which is the effect on the public interest of each aspect of the transaction. This case is no

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"exception. The branch applications here involved were predicated upon the proposed take-over by Bank of America of the business of other specified banks and that factor was fully considered in determining that approval of the applications and the granting of the permits were in the public interest. Your counsel further inquired as to assertion that the Board of Governors of the Federal Reserve System first learned of the proposed branching on June 13. You are advised that the Chairman of that Board was kept generally informed of the status of the branch applications and was notified at least as early as April 11, 1950 of the intention to grant the Branch permits in connection with a contemplated increase of your Bank's capital. A copy of this wire is being sent to the Chairman of the Board of Governors of the Federal Reserve System."

It was agreed unanimously that the wire should be sent to Mr. Townsend over the leased wire with the request that he telephone any comments including the nature of the reply, if any, which he felt should be made.

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated June 21, 1950, from Messrs. Young and Noyes, Director and Assistant Director of the Division of Research and Statistics, respectively, recommending an increase in the basic salary of Miss Katherine M. Radicevic, a clerk in that Division, from \$2,530 to \$2,650 per annum, effective July 9, 1950.

Approved unanimously.

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Letter to Mr. Lunding, Federal Reserve Agent of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in Mr. Meyer's letter of June 22, 1950, the Board of Governors approves, effective July 3, 1950, the payment of salary to Mr. Charles J. Scanlon, Alternate Assistant Federal Reserve Agent, Federal Reserve Bank of Chicago, at the rate of \$7,500 per annum."

Approved unanimously.

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

"In view of the request contained in your letter of June 19, 1950, addressed to Mr. Millard, the Board extends to July 3, 1950, the time within which the First State Bank of Bellaire, Bellaire, Texas, may accomplish membership."

Approved unanimously.

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

"Reference is made to your letter of June 21, 1950, submitting a certified copy of a resolution adopted by the Board of Directors of The Miami Deposit Bank, Yellow Springs, Ohio, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice which may be required.

"In view of your favorable recommendation the Board of Governors waives the usual requirement of six months' notice, as requested. Accordingly, upon surrender of the Federal Reserve Bank stock issued to The Miami Deposit Bank, Yellow Springs, Ohio, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon.

"Please advise the Board of Governors when cancellation is effective and refund is made. The

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"Certificate of Membership issued to the bank should also be obtained, if possible, and forwarded to the Board. The State Banking authorities should be advised of the bank's proposed withdrawal from membership and when it has been effected."

Approved unanimously.

Letter to Mr. Floyd W. Larson, National Secretary, American Institute of Banking, 12 East 36 Street, New York 16, New York, reading as follows:

"This refers to your letter of May 25 and to subsequent communications regarding the number of bank officers and employees by counties.

"We are doing the card punch work for National banks and for Federal Reserve banks and branches, as of December 31, 1949; the State member data are already on cards. These will be furnished to the Federal Deposit Insurance Corporation where the combination will be made with its data. The completed sheets that it will furnish you will show for each State a five column listing: the first column will be the name of the county; the second, the number of bank officers; the third, the number of bank employees; and the fourth and fifth columns will show the number of bank officers and employees in towns with a population of over 10,000 according to the 1940 census. As explained to you when you were here, the coding of individual towns has not been completed; thus in any county having towns with a population of over 10,000, for example Alameda, California, the figures in the fourth and fifth columns will be the totals for all such towns rather than a separate listing of each.

"It is expected that the completed sheets will be forwarded to you early in July.

"You understand, of course, that our statistics on number of officers and employees of branch-operating State member banks, like the corresponding statistics for National banks and insured nonmember banks, are taken from consolidated reports, and, consequently, represent the personnel of the head office and all of

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"its branches, including branches located outside of head office cities and head office counties. It is my understanding that you plan to obtain supplementary data from banks located in places with a population of 10,000 or more, which were operating one or more branches outside their respective head office cities. We furnished you a list of such banks as of June 1939, which you used in connection with the tabulation of bank personnel that you made as of that date. If you wish, we will be glad to prepare and furnish you a corresponding list as of December 31, 1949, covering all such branch operating banks, member and nonmember."

Approved unanimously.

Memorandum dated June 20, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that the Board authorize negotiations with the Survey Research Center of the University of Michigan for a sixth nationwide Survey of Consumer Finances to be conducted in January and February 1951 at an estimated cost of \$140,250, plus a contingency reserve of \$10,000 to cover any excess expenditures over the above cost estimate. The memorandum also recommended that contracts be concluded with the Survey Research Center pursuant to the above recommendation.

Approved unanimously.

Memorandum dated June 20, 1950, from Mr. Gardner L. Boothe, II, Assistant Director of the Division of Administrative Services, recommending that an assessment of two hundred and twenty-five thousandths of one per cent (.00225) of the total paid-in capital and surplus (sections 7 and 13b) of the Federal Reserve Banks as of June 30, 1950,

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be levied against the Federal Reserve Banks for the general expenses of the Board of Governors for the period July 1 to December 31, 1950, and that the Banks be instructed to pay in the assessment in two equal instalments on July 3, 1950, and September 1, 1950.

The following resolution levying an assessment in accordance with the above recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semi-annually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1950, it is necessary that a fund equal to two hundred and twenty-five thousandths of one per cent (.00225) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and twenty-five thousandths of one per cent (.00225) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business June 30, 1950.

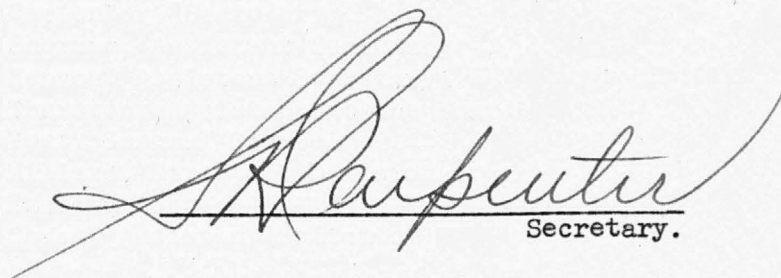
(2) Such assessment, rounded to the nearest hundred dollars, shall be paid by each Federal Reserve Bank in two equal installments, the first on July 3, 1950, and the second on September 1, 1950.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by

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"transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."



A. Carpenter
Secretary.