

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 11, 1950.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated July 10, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of Mrs. Geraldine M. Venable, a cafeteria helper in that Division, from \$2,120 to \$2,190 per annum, effective July 23, 1950.

Approved unanimously.

Letter to the Board of Directors of the "Bank of Laguna Beach", Laguna Beach, California, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, and the following special condition, the Board approves the Bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco, effective if and when the bank is authorized to commence business by the appropriate State authorities.

- "3. At the time of admission to membership such bank shall have a paid-up and unimpaired capital stock of not less than \$150,000 and other capital funds of not less than \$75,000."

Approved unanimously, together with a letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

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"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Laguna Beach', Laguna Beach, California, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of California, for his information."

Letter to Mr. Willett, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of July 3, 1950, submitting the request of the 'Industrial Trust Company', Providence, Rhode Island, for approval of the establishment of a branch in Wakefield, Rhode Island.

"It is noted that the establishment of the proposed branch has been approved by the appropriate State authorities and in view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Wakefield, Rhode Island, by the Industrial Trust Company, Providence, Rhode Island, provided such branch is established within six months after date of this letter and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter to Mr. Russell G. Smith, Executive Vice President, Bank of America, 40 Wall Street, New York, New York, reading as follows:

"This refers to your letter of June 27, 1950, and enclosures, requesting the Board's approval of a modified proposal to increase the capital of Bank of America.

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"It is noted that the capital stock of Bank of America is to be increased from \$2 million consisting of 20,000 shares to \$6 million consisting of 60,000 shares, the additional shares to be sold at \$137.50 per share with the premium of \$37.50 per share to be credited to surplus.

"The Board approves the proposed increase in the capital of Bank of America and the proposed amendment to the Articles of Association of Bank of America in this connection."

Approved unanimously, together
with the following letter to Mr.
Wiltse, Vice President of the Federal
Reserve Bank of New York:

"Enclosed is the Board's letter of this date addressed to Bank of America, New York, New York, approving the modified proposal to increase the capital of Bank of America set forth in the letter from Bank of America dated June 27, 1950, and its enclosures, which were transmitted to the Board with your letter of June 30, 1950. It will be appreciated if you will transmit the enclosed letter to Bank of America. A copy of the letter is enclosed for your files.

"Please call to the attention of Bank of America the fact that the law requires that the additional capital shall be fully paid-in within 90 days after the date of the Board's approval, and request Bank of America to advise the Board in writing through your Bank when such action has been taken."

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

"This refers to your letter of June 23, 1950, requesting the Board of Governors to consider your Bank's proposals to modernize the elevator system in the main office building and to extend the second floor level and redecorate the officers' quarters in the Cincinnati Branch building.

"The Board will interpose no objection to the modernization of the elevators in the head office building at an approximate cost of \$368,000 and the acceptance of the bid of Westinghouse Electric Corporation as authorized by your Directors.

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"The Board will also interpose no objection to the expenditure of approximately \$50,000 for the alterations at the Cincinnati branch as originally proposed in your letter of March 14, 1950.

"Thank you for the report of the program of repairs, alterations and improvements contemplated over a five year period, which it is understood was prepared in response to a request from the Directors of your Bank.

"Approval of the two projects referred to in this letter does not, of course, constitute approval of the entire program. The Board, however, will be glad to consider the other items of a major character as the program develops and as they are submitted in accordance with the Board's letter of May 6, 1949 (S-1109; F.R.L.S. #3053)."

Approved unanimously.

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

"At the June 15, 1950 meeting of the Board of Governors with the Presidents of the Federal Reserve Banks, the suggestion was made that, instead of designating and terminating reserve cities as of March 1, 1951 pursuant to the formula and procedure adopted in 1947, the Board make a simple statement that it would continue for another period all existing designations. This suggestion was made by some of the Presidents on the grounds that (1) a change in the basis for computing reserve requirements is under consideration, and (2) during the period since the formula was adopted there has not been such a redistribution of interbank deposits as to make necessary any change in reserve city designations.

"In the discussion it was brought out that there are some cities whose reserve city designation would be terminated under the formula unless all member banks in the city requested continuance of the designation, that in some of these cities one or more member banks might decline to join in such a request, and that considerable pressure might be brought upon the Board by the remaining banks to continue the designation. On the other hand, it was pointed out that the formula is the result of long and careful consideration of all relevant matter presented to the Board on this subject in 1947; that

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"the Board had concluded at that time and is still of the opinion that the formula constitutes a logical, fair, and appropriate standard for determining the designation and termination of reserve cities; and that consequently, if a given reserve city did not qualify as such under the formula, the Board would not be justified in imposing reserve city requirements upon a member bank in the city merely because other member banks in the city wished to continue the reserve city designation.

"The Board is fully appreciative of the problems that gave rise to the suggestion above mentioned. However, under the formula the Board must, of course, take action either to continue or discontinue existing designations; and after careful consideration, the Board has concluded that it would not be justified in making a change in or suspending the formula at this time. Such action would merely have the effect of reviving the unsatisfactory situation which existed before the formula was adopted, when determinations with respect to reserve city designations were made on the basis of the facts of the particular case without the consistent application of any uniform principle, with the result that in the course of time certain anomalous and illogical situations developed.

"The Board is hopeful that there will be unanimity of views, as to either continuance or discontinuance of reserve city designation, among the member banks in each reserve city which may not qualify as such under the formula."

Approved unanimously.

Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Gordon Gray's committee to study the development of a future foreign economic policy for the United States -- the so-called 'dollar-gap program' -- is planning a series of small meetings around the country with representative leaders. Not more than 30 are expected to attend the meeting. The Board has been consulted as to arrangements for the meetings and has suggested that arrangements might be made to hold them at the Federal Reserve Banks.

"Could your Bank provide appropriate facilities

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"for such a meeting scheduled for July 24 and 25, to be held under the direction of Lawrence F. Lee of Raleigh, N. C.?"

"Would appreciate reply as promptly as possible. If such a meeting can be held at the Reserve Bank, please advise name of officer with whom representative of the Gordon Gray committee might discuss arrangements."

Approved unanimously with the understanding that similar telegrams would be sent to Presidents of other Reserve Banks where the Board has been requested to arrange accommodations for such meetings.

Letter to Honorable George J. Schoeneman, Commissioner of Internal Revenue, Treasury Department, Washington 25, D. C., reading as follows:

"This refers to your letter of June 28, 1950, addressed to Chairman McCabe, requesting that authority be granted to Valuation Engineer F. B. Hyder, Office of Chief Counsel, Bureau of Internal Revenue, to examine reports of examinations made by examiners for the Federal Reserve Bank of Cleveland of the 'First Central Trust Company of Akron, or its predecessor, the First Trust and Savings Bank,' for the purpose of obtaining information concerning certain loans in connection with litigation pending in the United States District Court for the Northern District of Ohio.

"It is believed that the following information may be helpful in connection with your Bureau's investigation of this matter. In October 1931, First-City Trust and Savings Bank, Akron, Ohio, a State member bank, purchased the assets and assumed the liabilities of The Central Depositors Bank and Trust Company, Akron, Ohio, also a State member bank, and the name of First-City Trust and Savings Bank was changed to The First-Central Trust Company. Early in 1933, The First-Central Trust Company purchased the assets and assumed the liabilities of The First-City Savings Bank, Barberton, Ohio. The First-Central Trust Company was not licensed to resume business following the Banking Holiday in 1933; and in June 1933, the

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"Superintendent of Banks for the State of Ohio took possession of the bank for the purpose of liquidation and the bank's membership in the Federal Reserve System was terminated. Under a reorganization plan approved by the Common Pleas Court of Summit County, Ohio, the bank reopened in January 1934, with the same name and charter, and it was again admitted to membership. Under the reorganization plan, the assets of the 'new' bank consisted almost wholly of cash, and the assets of the 'old' bank, including its loans, were liquidated under the direction of the State Superintendent of Banks for the benefit of depositors who waived a portion of their claims against the bank. The liquidation of such assets was completed in 1943. The bank continued as a State member bank until May 1947, when it was converted into the First National Bank of Akron.

"We do not have available in Washington copies of the reports of examinations of The First-Central Trust Company, or its predecessor banks, made by the examiners for the Federal Reserve Bank of Cleveland, and do not know whether such reports contain any information concerning the loans which your Bureau is investigating. However, it appears likely that the loans were among the assets which were liquidated under the direction of the State Superintendent of Banks and, while Mr. Hyder may still wish to make inquiry at the Federal Reserve Bank of Cleveland as he had planned, it may be doubtful whether the reports will contain information concerning the transactions in 1935 and 1942 mentioned in your letter.

"The Board desires to cooperate as far as practicable with your Bureau and other Government agencies seeking information for use in the performance of their official duties. As you will readily understand, it is of course necessary to protect the confidentiality of bank examination reports; and, for this reason, it is our practice to make information contained in such reports available only with the understanding that the information will be used only in developing leads in connection with an investigation, that no reference is to be made to the source of information, and that no effort will be made to use the information as evidence in any court or other similar proceeding. Information has been furnished to your Bureau on this basis in the past and, in a telephone conversation with a member of the Board's staff, Mr. Hyder indicated that it would be satisfactory to do so in this instance.

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"Accordingly, with the understanding that the information will be used only in the manner indicated above, we are authorizing the Federal Reserve Bank of Cleveland to make available to Mr. Hyder, or other representatives of your Bureau, any information concerning the loans mentioned in your letter which may be contained in reports of examinations of The First-Central Trust Company, and its predecessor banks, made by examiners for the Reserve Bank."

Approved unanimously, together with the following letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland:

"Enclosed herewith is a copy of a letter of June 28, 1950, from the Commissioner of Internal Revenue, together with a copy of the Board's reply of this date, relating to the furnishing of information from reports of examinations of The First-Central Trust Company, Akron, Ohio, and its predecessor banks, to representatives of the Bureau of Internal Revenue in connection with litigation pending in the United States District Court for the Northern District of Ohio.

"You are authorized to furnish to representatives of the Bureau of Internal Revenue any information concerning the loans in question which may be contained in the reports of examinations made by examiners for your Bank. In furnishing this information, the reports of examination should remain in your possession and only those portions of the reports which are pertinent to the investigation should be made available for inspection."

Mr. Townsend, Solicitor for the Board, who is still in San Francisco, advised Mr. Morrill by telephone today that the opinion handed down by the United States Circuit Court of Appeals for the Ninth Circuit in San Francisco on Monday, July 10, indicated that the Court was under the impression that there were now outstanding voting permits issued by the Board of Governors to Transamerica Corporation which would permit the election of directors of member

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banks which the Corporation and Bank of America had undertaken to convert into branches, and that a hearing before the Circuit Court of Appeals on a petition for a stay of execution of the Court's order requiring the Bank of America and Transamerica to restore the situation existing on June 23, 1950, would be held on Thursday, July 13, 1950. Under these circumstances, Mr. Townsend had suggested to Mr. Morrill that the Board adopt a resolution which he could file with the Court stating that the Board stood ready to grant to Transamerica Corporation such voting permits as would be necessary to enable the Corporation to comply with the Court's orders.

Accordingly, the following resolution was adopted by unanimous vote:

"BE IT RESOLVED, That the Board of Governors of the Federal Reserve System, upon application by Transamerica Corporation, will forthwith grant to Transamerica Corporation such voting permits as that Corporation may need in order to comply with the orders of the United States Court of Appeals for the Ninth Circuit entered in No. 12587, Board of Governors of the Federal Reserve System, Petitioner, v. Transamerica Corporation and Bank of America National Trust and Savings Association, Respondents, including permits authorizing the voting of stock for the election of directors if that be necessary."

This action was taken by the Board with the understanding that the Secretary would execute the following affidavit which would be sent to Mr. Townsend in San Francisco by air mail, special delivery, today:

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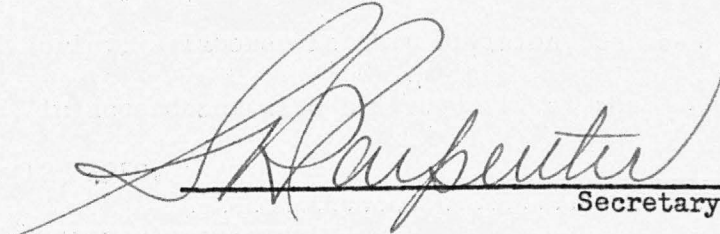
"AFFIDAVIT OF SAMUEL R. CARPENTER

"District of Columbia -- ss:

"SAMUEL R. CARPENTER, being first duly sworn on oath deposes and says:

"I am secretary of the Board of Governors of the Federal Reserve System and have occupied said position since July 1, 1945.

"On July 11, 1950 the Board of Governors of the Federal Reserve System adopted a Resolution, a true and complete copy of which is attached hereto marked Exhibit I."


Secretary.