

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 18, 1950. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Sloan, Assistant Director, Division of Examinations
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Goodman, Federal Reserve Examiner, Division of Examinations

Chairman McCabe stated that Paul E. Miller, of St. Paul, Minnesota, a Class C director of the Federal Reserve Bank of Minneapolis, had been requested to accept a special assignment for the Economic Cooperation Administration which would require him to spend approximately one year in Europe, and that inquiry had been made whether the Board would be willing to give Mr. Miller a leave of absence as a director during the period of his assignment.

It was agreed unanimously that in the circumstances no objection should be interposed to Mr. Miller's continuing as a director of the Federal Reserve Bank of Minneapolis.

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Mr. Thomas reviewed, and there was a discussion of, recent developments in the Government securities market, during which it was suggested that a meeting of the executive committee of the Federal Open Market Committee should be arranged for Friday morning, July 21. Chairman McCabe indicated that he would attempt to meet with Secretary of the Treasury Snyder on Thursday to review open market policies, and that he would call members of the Federal Advisory Council on the telephone to obtain their current views with respect to the desirability of the Treasury offering a long-term nonmarketable tap issue at this time. He stated that Mr. A. L. M. Wiggins, former Under Secretary of the Treasury, had been called back to the Treasury on a temporary basis to assist in work on a tax program, and that he (Mr. Wiggins) had asked that a representative of the Board go to the Treasury on Tuesday of next week to present any ideas that the Board might have on that subject. Chairman McCabe also said that he had turned the request over to Mr. Riefler.

Consideration was given to various actions which might be taken at the present time by the Board in the light of the developments in the international situation. While it was agreed that no action was called for at the moment on Federal Reserve Bank discount rates, member bank reserve requirements, or margin requirements, it was felt the Board might consider suggesting the issuance of a joint statement regarding commercial bank credit policies possibly in

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collaboration with the American Bankers Association urging the banks to avoid speculative loans and loans that would add to inflationary pressures. Mr. Riefler suggested that the Home Loan Bank Board be invited to join in the statement since Mr. Divers, Chairman of that Board, had expressed interest in such a step recently. Following discussion, during which Mr. Young said that the Division of Research and Statistics had been conferring with the Division of Examinations on a possible draft of a statement of this kind, Chairman McCabe requested that such a draft be prepared, that the matter be discussed informally at the staff level by Mr. Sloan with representatives of the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, and that a copy of the draft statement be sent to Mr. Sparling, President of the National Association of Supervisors of State Banks for comment.

This suggested procedure was
approved unanimously.

Question was then raised whether steps should be taken at this time to bring in for consultation experts from commercial banks who could advise on problems that would arise should the President obtain from Congress and delegate to the Board authority to control real estate mortgage credit. Mr. Riefler stated in this connection that his recent talks with Mr. Spingarn, Assistant to the President, and with representatives of the Council of Economic Advisers had

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indicated some differences of opinion as to what type of control legislation would be requested, but said he considered it a strong possibility that should any such legislation be obtained the responsibility for its administration might be placed with the Board.

Following discussion, Chairman McCabe suggested that plans be made for a conference on Thursday, July 20, between members of the Board's staff and outside consultants to consider the problems relative to administering such a program. He said further that the Board probably would be called in the near future to testify at hearings on the legislation relating to consumer and real estate credit controls and that a statement should be prepared by the staff for that purpose. He also suggested that the work of the staff on consumer and real estate credit be done in consultation with Mr. Evans.

In that connection, Mr. Evans reviewed the procedure which had been followed in handling consumer credit matters in the past and suggested that, at least for the time being, the same general procedure should be followed, with a staff committee composed of about the same personnel as previously being set up to coordinate the Board's activities.

The suggestions of Chairman McCabe and Mr. Evans were approved unanimously.

At this point Messrs. Thomas and Youngdahl withdrew, and Mr. Baumann, Assistant General Counsel, entered the meeting.

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There was presented a memorandum from Mr. Szymczak dated June 21, 1950, concerning a proposed Board policy with respect to examination of foreign branches of American banks as well as Edge Act Corporations and other international banking organizations operating under agreements with the Board. The memorandum, which was read by the Secretary, contained the following recommendations:

- "1. That examinations of 'Edge' banks continue to be made annually and that examinations of their foreign branches be made by examiners for the Board or the Reserve Banks every three years.
- "2. That 'Agreement' corporations and their foreign branches be examined every three years, by examiners commissioned or approved by the Board, jointly with State authorities, if practicable.
- "3. That foreign branches of State member banks be so examined every three years, jointly if practicable.
- "4. That the question of examination of foreign branches of National banks be discussed at 'policy' level with the Comptroller and, if a satisfactory program is not to be maintained by the Comptroller, that such branches be examined every three years by examiners commissioned or approved by the Board, independently, if necessary.
- "5. That costs, except for 'Edge' bank examinations, be absorbed."

Upon motion by Mr. Szymczak the above recommendations were approved unanimously with the understanding that this action also covered approval of the recommendations in the form contained in Mr. Millard's memorandum of June 7, 1950, pertaining to the same matter, and with the further understanding that, in accordance with the policy so adopted, the Board would absorb the cost of an examination of the First of Boston International Corporation made as of June 27, 1950.

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Mr. Leonard reported that reserve stocks of one-dollar silver certificates have reached an abnormally low level both at the Federal Reserve banks and at the Treasury and that the current schedules of production preclude the possibility of any material increase in these stocks within the foreseeable future despite the relatively lenient standards of fitness currently being observed. The problem, Mr. Leonard stated, stems from a reduction in Treasury Department appropriations for printing and from labor union difficulties in the Bureau of Engraving and Printing. He also said that the stocks of Federal Reserve notes were lower than desired, particularly in view of current demands and the uncertainties of the international situation, and that it would be desirable to step up production of Federal Reserve notes promptly.

Mr. Leonard then commented on a meeting which he had attended last week in the office of Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, to discuss the supply of currency and said that he had been informed yesterday by the Treasury Department that negotiations were in progress with the plate printers to determine whether production could be stepped up and that Mr. Bartelt was going to consult with Secretary of the Treasury Snyder concerning an increase in appropriations. He then outlined three possible approaches to this problem, as follows:

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- (1) The Bureau of Engraving and Printing might be authorized by the Board to work on the printing of Federal Reserve notes on Saturdays for a limited period with the Federal Reserve System bearing the additional cost which the overtime work would involve;
- (2) The Federal Reserve might increase its orders for five-dollar Federal Reserve notes, thus allowing the Treasury to concentrate on the production of one-dollar silver certificates instead of five-dollar certificates;
- (3) Legislation might be sought to authorize the printing of one-dollar Federal Reserve notes. (Should such legislation be sought, Mr. Leonard said, it would be desirable for the Federal Reserve to seek at the same time a change in the law which would permit each Federal Reserve Bank to pay out the notes of other Federal Reserve Banks.)

There ensued a discussion of the operating problems at the Bureau of Engraving and Printing and the proposals which Mr. Leonard had made for increasing production, following which Chairman McCabe suggested that the Board authorize the Bureau of Engraving and Printing to begin overtime work this Saturday on Federal Reserve notes for a trial period of four weeks to determine what increase in the rate of production would be achieved thereby, that further discussions be held with Mr. Bartelt concerning the possibility of increasing the Federal Reserve System's orders for five-dollar Federal Reserve notes so that the Treasury might concentrate on the production of one-dollar silver certificates, and that Mr. Bartelt be advised that the Board was concerned about the problem of one-dollar

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certificates and that if it would be helpful to have a survey of working conditions at the Bureau made by a firm of competent efficiency engineers, the Board would be willing to pay the cost of such a survey.

The suggested procedure was approved unanimously, with the understanding that Mr. Leonard would advise the Treasury Department accordingly.

At this point all of the members of the staff except Messrs. Morrill and Carpenter withdrew from the meeting.

Reference was made to the letter received from Mr. L. M. Giannini, President, Bank of America National Trust & Savings Association, under date of July 11, 1950, relating to the injunction proceedings recently instituted by the Board in the United States Court of Appeals for the Ninth Circuit and requesting certain information in that connection.

Chairman McCabe stated that Mr. Townsend had been considering the reply that should be made and wished to discuss it with Mr. Bergson, Assistant Attorney General, before suggesting the nature of the reply, if any, which should be made.

Chairman McCabe stated that Mr. Neely, Chairman, and Mr. Harris, Deputy Chairman, of the Federal Reserve Bank of Atlanta, were to have luncheon with him today and presumably would want to discuss the question of the appointment of a President and First Vice President at the Federal Reserve Bank of Atlanta for the term

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beginning March 1, 1951. In response to the Chairman's inquiry, the other members present indicated that they continued to favor the program agreed upon at the meeting of the Board on March 7, 1950, with respect to the appointment of the President and First Vice President at the Atlanta Bank.

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

Memorandum dated July 14, 1950, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending that the resignation of Louis W. Zidek, an assistant Federal Reserve examiner in that Division, be accepted to be effective, in accordance with his request, August 20, 1950.

Approved unanimously.

Memorandum dated July 11, 1950, from the Division of Personnel Administration, recommending that effective as of the date of approval by the Board, Elisha L. Brien, Jr. be relieved as a member of the Loyalty Board, and Robert C. Masters be appointed a member of the Loyalty Board; that John C. Baumann be reappointed Chairman of the Loyalty Board and C. Richard Youngdahl be reappointed as Vice Chairman of the Loyalty Board; and that J. E. Horbett, Merritt Sherman, and Sampson H. Bass be reappointed alternate members of the Loyalty Board.

Approved unanimously.

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Letter to Mr. Sproul, President of the Federal Reserve
Bank of New York, reading as follows:

"This refers to your letter of March 22, 1950, and enclosures, with reference to a suggestion made by Mr. Winthrop W. Aldrich that section 5200 of the Revised Statutes of the United States be amended so as to permit national banks to make loans on gold on the same basis as loans secured by United States Government obligations.

"Your letter and enclosures were referred to the Comptroller of the Currency for an expression of his views and the Board is now in receipt of a letter from the Deputy Comptroller of the Currency and its enclosure, copies of which are enclosed herewith.

"It will be noted that the Treasury Department would interpose no objection to the amendment suggested by Mr. Aldrich, but for policy reasons thinks that such legislation should be sponsored by the banks. The Board concurs in these views of the Treasury Department.

"It will also be noted that the Comptroller's letter to us suggests that possibly certain language of section 11(m) of the Federal Reserve Act (12 U.S.C. 248(m)) should be considered in this connection. After giving consideration to this suggestion, the Board is not disposed to suggest any further change in section 11(m) or in the proposed amendment to section 5200."

Approved unanimously.

Telegram to Mr. Wilbur, Federal Reserve Agent of the Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Transamerica Corporation", San Francisco, California, entitling such organization to vote the stock which it owns or controls of The First National Bank of

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Bellflower, Bellflower, California; First National Bank in Corcoran, Corcoran, California; The First National Bank of Crows Landing, Crows Landing, California; The First National Bank of Fairfield, Fairfield, California; The First National Bank of Garden Grove, Garden Grove, California; The First National Bank of Los Altos, Los Altos, California; The First National Bank of San Jacinto, San Jacinto, California; First National Bank in Santa Ana, Santa Ana, California; First National Trust and Savings Bank of Santa Barbara, Santa Barbara, California; The Temple City National Bank, Temple City, California; First National Bank in Turlock, Turlock, California; The First National Bank of Weed, Weed, California; Bank of Beaumont, Beaumont, California; First National Bank in Delano, Delano, California; Bank of Newman, Newman, California; First Trust and Savings Bank of Pasadena, Pasadena, California, and at any time within 30 days of July 10, 1950, to elect directors of such banks and to take any action which may be necessary or incident to carrying out the order of the United States Court of Appeals for the Ninth Circuit entered on July 13, 1950, relating to such banks. The telegram also contained the following paragraph:

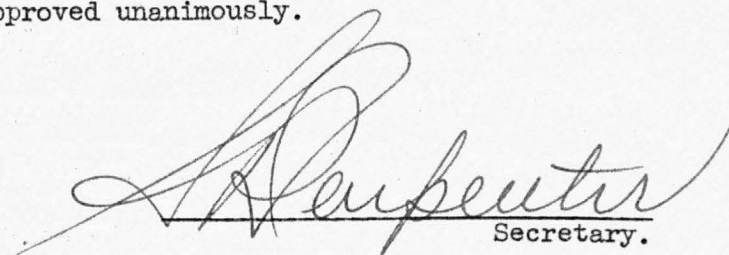
"It will not be necessary to obtain a resolution of the board of directors of Transamerica Corporation authorizing the furnishing of the letter required as a condition to the issuance of the permit authorized herein. The Board's action in authorizing the issuance of this permit is being taken in response to a telegram dated July 18, 1950, addressed to Chairman McCabe by Sam H. Husbands, President, Transamerica Corporation, reading as follows: 'With respect to the member banks other than the Bank of America named in the orders of the Court of

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"'Appeals of the Ninth Circuit obtained at your instance on June 23 and 24 this corporation respectfully requests that a special voting permit or permits be granted to it to elect directors of said banks and to take any action as may be necessary or incident to carry out the courts order of July 13, 1950.'"

Approved unanimously.



A. Carpenter
Secretary.