

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 3, 1950. The Board met in the Special Library at 11:10 a.m.

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

Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Vest, General Counsel  
Mr. Leonard, Director, Division of  
Bank Operations

There was presented a memorandum from Mr. Evans dated July 27, 1950, stating that the staff had been giving consideration to the possibility of equipping room 1202 in the Board building as a combination projection and conference room, that, under authorization from the Personnel Committee, Mr. C. D. Persina, who serves the Board as architectural consultant in connection with Reserve Bank and branch building projects, had been engaged on a part-time basis with compensation at the rate of \$70 per day for the purpose of designing, preparing plans, specifications, and cost estimates and recommending changes in the furnishings of the room, and that Mr. Persina had submitted plans, specifications, and blueprints acceptable to the Division of Administrative Services together with a statement which indicated that the project would cost approximately \$22,000. The memorandum suggested that the Board consider whether in light of the current economic situation and the limitations placed on the

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use of construction materials, the Division of Administrative Services should be authorized to award the necessary contracts and to proceed with the work in consultation with Mr. Persina with the understanding that the cost of the project would not exceed \$25,000.

Following a discussion, upon motion by Mr. Evans, the project was approved unanimously on the terms set forth in Mr. Evans' memorandum with the understanding that appropriate classifications of the budget of the Division of Administrative Services would be increased to cover the expense involved including bills rendered by the architect for preliminary work.

At the request of Mr. Vardaman, Mr. Leonard presented and discussed a memorandum dated August 2, 1950, which outlined the status of present and contemplated building programs of the Federal Reserve Banks and branches. The memorandum stated that under the existing \$10 million authorization building programs were under way or completed at the Reserve Bank branches in Cincinnati, Detroit, Portland, and Seattle, that final or preliminary plans had been received relating to programs for the Pittsburgh, Jacksonville, Louisville, and Los Angeles branches, and that programs were in the discussion stage for the Buffalo, Baltimore, Charlotte, Birmingham, Nashville, Omaha, Denver, Oklahoma City, Houston, El Paso, San Antonio, and Salt Lake City branches. At head offices, the Boston Bank was preparing plans for major alterations and an addition to the present building, the Philadelphia Bank was well along on plans

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for air conditioning and an addition, the Richmond Bank had opened bids for a major addition as reported in a letter from Mr. Walden, First Vice President of that Bank, dated August 1, 1950, the Chicago Bank had instructed its architect to make preliminary studies for the erection of three or four additional stories to the present building, and the San Francisco Bank was completing preliminary plans for alterations to the main building and the construction of a storage annex. The memorandum also stated that in the light of the present economic situation and having in mind that the bill H.R. 7895 pending in Congress, which would increase from \$10 to \$20 million the authority for construction of branch buildings, contained a provision that such construction "shall be deferred unless urgently needed for the efficient and economical operation of the branch", it was believed that a reasonable program would be to (1) proceed with the Jacksonville Branch building, which is badly needed, (2) proceed with the Richmond program in view of the desirability of providing additional facilities and the fact that the construction can start immediately, (3) if funds permit, proceed with the program at Louisville, where the conditions were recently described by the Board's consulting architect as "archaic, inappropriate, and inefficient", (4) reconsider the Pittsburgh and Los Angeles programs and probably defer them until the economic situation becomes more clear even if the additional authorization for branch building construction is approved by Congress,

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(5) defer whenever possible other branch building programs until the situation becomes more clear and consider construction to meet only the most urgent needs and then only if the general situation would justify the program, (6) proceed with the Philadelphia program unless the material and manpower situation appears worse than at present when the Bank is ready to proceed with construction, (7) defer the Boston and Chicago programs, (8) consider the various phases of the San Francisco program in the light of the situation when further details of the program are submitted.

Mr. Riefler stated that he received a telephone call from the Budget Bureau a few days ago asking if action on the bill providing for an increase from \$10 to \$20 million in the authorization for branch buildings should not be deferred, and that he responded that while the System felt that construction should be related as far as possible to the economic situation, the additional authority was needed to complete essential branch building programs. Subsequently, he said, the Budget Bureau informed him that it had decided to interpose no objection to the pending bill, but that it was hoped the Board would cooperate to the full with the general program of deferring new construction when possible in view of the current economic situation.

At this point Mr. Eccles joined the meeting.

There followed an extensive discussion of the need for additional or improved facilities at the Federal Reserve Banks and branches

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and of the demands that might be made upon the System for performing additional functions under pending legislation and if the emergency becomes more serious. It was the consensus that while the Federal Reserve Banks could appropriately continue with the development of plans, additional major construction should not be authorized under the present circumstances, except in the case of urgently needed facilities. The view was expressed, however, that because of the circumstances involved in these two particular instances, special consideration might be given to the proposed new building at Jacksonville and to the contemplated addition at the Richmond head office. With respect to the Jacksonville Branch, it was the consensus that the space situation at that office was critical and that if any branch construction were to be approved this project should have priority. During the discussion, Chairman McCabe suggested that Mr. Vardaman call Chairman Neely, of the Atlanta Bank, on the telephone to explain the Board's position and to ask whether in his opinion conditions were so urgent as to compel proceeding with the construction of the new building at Jacksonville. As to the contemplated addition to the Richmond head office, it was suggested that there should be a further discussion of the matter with Director Rust, who is chairman of the Bank's building committee, before reaching a final decision on that project.

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Following the discussion, it was agreed unanimously that Mr. Vardaman should call Chairman Neely and Mr. Rust on the telephone for the purpose of explaining the Board's views and discussing the Jacksonville and Richmond building programs, respectively, along the lines suggested.

Chairman McCabe stated that approval of the proposed joint statement of the supervisors of banks and lending institutions regarding current credit policies, discussed at the meeting on July 18, 1950, had been obtained from the National Association of Supervisors of State Banks, the Federal Deposit Insurance Corporation, and the Home Loan Bank Board, and that Deputy Comptroller of the Currency Robertson had called him this morning to say that he had suggestions for certain minor changes in language which he would like to discuss after clearing them with the Secretary of the Treasury. Later in the meeting Chairman McCabe received a telephone call from Mr. Robertson giving his suggested changes which he said had also been approved by Secretary Snyder. These proposed changes were discussed and it was agreed that they would not alter the statement in substance.

Thereupon, upon motion by Mr. Evans, the statement was approved unanimously with the understanding that if the other supervisory agencies concurred in the changes suggested by the Office of the Comptroller of the Currency, it would be printed and mailed to all banks.

Secretary's Note: Mr. Riefler reported to the Secretary that he discussed the

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proposed changes with Mr. Sparling, President of the National Association of Supervisors of State Banks, Chairman Harl, of the Federal Deposit Insurance Corporation, and Mr. Divers, Chairman of the Home Loan Bank Board, and that they approved it in the revised form in which it was released under date of August 4, 1950, as follows:

"The President of the United States in his message to the Congress on July 19, 1950, pointed out that as a further important safeguard against inflation we shall need to restrain credit expansion, and that if we are to be successful there must be sensible and restrained action by businessmen, laborers, farmers, and consumers. The need for the exercise of restraint is all-embracing. It applies alike to governmental agencies, national and State, as well as to private institutions and individuals.

"Accordingly, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks urge that banks and all other institutions engaged in extending credit exercise special care in their lending and investment activities.

"The banks and other lending institutions of the country have demonstrated by their loyal response at critical periods in the past that they will stand united with their Government in the situation that now confronts us.

"Officials of associations of lending institutions have called upon banks and other financial institutions to decline to make loans to business or consumers which might be used for speculative purposes or otherwise interfere with defense requirements. The supervisory authorities strongly join in this request.

"All officials of the supervisory agencies will be glad to confer with the officers of banks and other financial institutions, to counsel with them regarding this program of credit restraint.

"As pointed out by President Truman, an abnormally high civilian demand for goods along with an increased need for military materials is creating a strong upward pressure on prices. A continuation of the rapid growth of credit resulting from consumer demand for houses and other goods

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"and speculative accumulation of inventories by business would add to inflationary pressures and seriously handicap the necessary expansion of military production. Therefore, lenders should carefully analyze all loan applications and avoid making loans which would have these adverse effects."

Chairman McCabe stated that when the executive committee of the Federal Advisory Council was in Washington on August 1, 1950, members of the committee suggested that it meet with the Board once each month beginning in September, except in those months in which the entire Federal Advisory Council met with the Board. The Chairman stated that he felt such meetings, held on an informal basis, would be beneficial under existing conditions since the Board would have need of the Council's advice concerning problems with which it would be dealing over the course of the next several months, and he suggested that arrangements be made for a meeting such as that proposed early in September.

Chairman McCabe's suggestion  
was approved unanimously.

In this connection, Mr. Vardaman suggested that it might be desirable to meet with representatives of the National Association of Supervisors of State Banks at monthly intervals, and it was understood that Chairman McCabe should use his judgment as to discussing the matter with Mr. Sparling, President of the Association.

At this point, Chairman McCabe was called from the meeting and Mr. Eccles suggested that the staff statement on fiscal and

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credit policies in the present emergency, which had been sent to the Joint Committee on the Economic Report under date of August 1, in response to a request from its Chairman, Senator O'Mahoney, be released publicly since the statement pointed out very clearly the role of fiscal and monetary controls in any effective anti-inflationary program.

Chairman McCabe then returned to the meeting and during further discussion of the desirability of releasing the staff statement, he suggested that inasmuch as it had been prepared at the request of the Committee, which had indicated that it was considering a report for release within the near future, it would be desirable for the Board to defer releasing the statement until it was known what use the Committee might make of it. Chairman McCabe also said that copies of the statement had been sent to members of the Senate and House Banking and Currency Committees, to the Federal Advisory Council, to the Presidents of the Federal Reserve Banks, and to the Directors of the Reserve Banks and branches for their confidential information.

At this point Mr. Eccles withdrew from the meeting.

Chairman McCabe stated that when members of the executive committee of the Federal Advisory Council met with him on August 1, they agreed fully with the desirability of restricting bank credit during the current emergency to essential purposes but were fearful

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that any voluntary agreements on the part of bankers restricting the extension of credit would cause them to be cited in violation of the anti-trust laws. He went on to say that Mr. Brown, President of the Council, was having a memorandum prepared in the hope that the Board would bring it to the attention of the Attorney General and also of the Banking and Currency Committees of the Senate and House during their consideration of the Defense Production Act of 1950. In this connection, Mr. Vest suggested that it might be possible to draft an amendment to the Defense Production Act which would accomplish the purpose of permitting such voluntary agreements.

Chairman McCabe then proposed, and it was agreed, that Mr. Vest should consult the Department of Justice and other interested Government agencies to determine whether there would be any objection to the inclusion of such language in the Defense Production Act and, if not, take the matter up with the Senate Banking and Currency Committee.

Chairman McCabe suggested that in view of the possibility that the Board would be delegated authority to issue a regulation with respect to real estate credit, it would be desirable to obtain the services of an outstanding banker in the mortgage field who could serve as a special consultant, especially during the period when such a regulation was being prepared and during the first few months that it might be in effect. He mentioned the names of several individuals whose services possibly could be obtained and stated that

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he would like to ascertain whether any of them would be available and on what basis.

Chairman McCabe was authorized by unanimous vote to proceed in the manner suggested.

At this point all of the members of the staff with the exception of Messrs. 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 August 2, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of Mrs. Dorothy S. Hurst, a clerk-stenographer in that Division, from \$2,770 to \$2,810 per annum, effective August 6, 1950.

Approved unanimously.

Memorandum dated August 2, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of Mrs. Pauline E. Stanley as a clerk in that Division, be extended on a permanent basis, effective August 8, 1950, with no change in her present basic salary at the rate of \$2,450 per annum.

Approved unanimously.

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

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"In accordance with the request contained in your letter of July 31, 1950, the Board approves the designation of William Hugh Low as a special assistant examiner for the Federal Reserve Bank of Chicago."

Approved unanimously.

Telegram to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"REURLET July 31. Board approves appointment Gerald Roger Rasmuson as assistant examiner for Federal Reserve Bank of San Francisco. Please advise effective date and furnish copy of application for our files in line Paulger's letter June 26, 1942."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and to the managing heads of all branches, reading as follows:

"In several instances recently, questions have arisen regarding the service of Federal Reserve Bank directors in public and political capacities and also regarding the service of directors of the branches of the Federal Reserve Banks as directors of banks. Since questions of this kind are constantly arising, the Board feels that it may be desirable to call attention to its policy regarding such relationships.

"With respect to the holding of political or public office by directors and officers of the Federal Reserve Banks, the Board in 1915 adopted a resolution which provided:

'WHEREAS, It is the opinion of the Federal Reserve Board that persons holding political or public office in the service of the United States, or of any State, Territory, county, district, political subdivision, or municipality thereof, or acting as members of political party committees, can not consistently with the

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"spirit and underlying principles of the Federal Reserve Act, serve as directors or officers of Federal Reserve Banks.

'RESOLVED, That the Federal Reserve Board hereby expresses to the member banks its opinion that no such persons should henceforward be elected or act as directors or officers of Federal Reserve Banks; and prescribes as a condition of eligibility that candidates for election shall comply with the terms of this resolution.'

"In view of the fact that the Federal Reserve Banks perform essential functions of a public nature relating, among other things, to the administration of national credit policies, it is obviously desirable that a situation should not be permitted to exist which might be interpreted as associating the Reserve Banks with any political party or political activity. The Board feels, therefore, that the policy embodied in the 1915 resolution is proper and desirable and for the best interests of the Federal Reserve System. In a number of instances, the Board has taken the position that the service of directors and officers of the Reserve Banks in certain public capacities was not contrary to the spirit of the resolution. However, the resolution continues to apply to the service of directors and officers in positions which clearly contravene the intent of the resolution; and if any questions as to the applicability of the resolution should arise in your district, the Board will be glad to give you the benefit of its views.

"A somewhat different question has arisen from time to time in cases in which a director of a branch of a Federal Reserve Bank appointed by the Board of Governors has later accepted a position as a director of another bank. As you know, the Board's regulations relating to Federal Reserve Bank branches provide that directors of the branches appointed by the Board should be persons who are not primarily engaged in banking and preferably are not directors of banks, although they may be stockholders. This provision of the regulations is based upon the policy indicated by the provision of the law which prohibits the Head Office directors of the Federal Reserve Banks appointed by the Board of Governors from serving as officers, directors or employees of banks. Accordingly, we are also bringing this matter to your attention in order that persons appointed as directors of the branches

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"in the future may be aware of the Board's policy in this respect."

Approved, Mr. Vardaman  
voting "no".

Letter to Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, Washington 25, D. C., reading as follows:

"In accordance with the request contained in your letter of July 27, 1950, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of sub-section (k) (2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of 'The Lodi State Bank', Lodi, Ohio, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"There have been no corrective programs urged upon the bank or agreed to, which have not been fully consummated and in connection with which the Board would suggest incorporation of conditions for continuing its status as an insured bank."

Approved unanimously.

Letter to Honorable H. E. Cook, Director, Federal Deposit Insurance Corporation, Washington 25, D. C., reading as follows:

"This refers to your letter of July 25, 1950, with regard to the proposed study of defalcations and fidelity insurance coverage as discussed at conferences on April 4 and July 13 attended by representatives of the three federal bank supervisory agencies, a representative of the American Bankers Association being in attendance on the latter date.

"The Board of Governors is pleased to cooperate with your Corporation and the Office of the Comptroller of the Currency in gathering a fund of data regarding irregularities in insured banks of all types. Accord-

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"ingly, upon receipt of a supply of the printed forms which you have kindly offered to furnish as per copy enclosed with your letter, we shall forward to Mr. Vance L. Sailor, Chief of your Division of Examination, the information listed on the form, to the extent available, in connection with each defalcation in State member banks reported by the Board of Governors to the Attorney General of the United States.

"The preparation of these forms regarding State member banks will be handled in the Board's Division of Examinations, and it is contemplated that the various Review Examiners will forward them directly to Mr. Sailor as completed from time to time. It is suggested that Mr. Sailor and his assistants refer to Mr. George S. Sloan, Assistant Director of the Board's Division of Examinations, any questions that may arise relative to the project. However, matters pertaining to details of reports on individual cases may be taken up directly with the Review Examiners regarding their respective Districts, if desired."

Approved unanimously.

Letter to Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Dallas, made as of May 15, 1950, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Gilbert.

"The Board has been informed by Mr. Millard of his discussion with you with respect to the matter of filling the position of General Auditor of your Bank, and it is understood that you will keep the Board informed regarding further developments in the matter.

"The Board will also appreciate advice that the report of examination has been considered by the Board of Directors, and will be glad to have any

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"comments you may care to offer regarding other discussions with respect to the examination, or as to other action taken or to be taken as a result of the examination."

Approved unanimously.

Memorandum dated July 28, 1950, from Mr. Chase, Assistant Solicitor, recommending that \$2,500 be added to the budget of the Office of the Solicitor for traveling expenses, that \$150 be added to the budget for telephone and telegraph, that \$200 be added to the budget for stationery and supplies, and that \$250 be added to the budget for furniture and equipment.

Approved unanimously.

  
Assistant Secretary.