

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 17, 1952. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank
Operations
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research
and Statistics
Mr. Noyes, Director, Division of Selective
Credit Regulation
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Chase, Assistant Solicitor
Mr. Swan, Acting Assistant Director,
Division of Selective Credit Regulation
Mr. Fauver, Assistant to Mr. Thurston

Pursuant to the understanding at the meeting on December 27, 1951, there was a review at this meeting of the program for the enforcement of Regulation W, Consumer Credit. As a basis for discussion, Mr. Evans had sent to each member of the Board a copy of a memorandum dated January 15, 1952 from Mr. Townsend with respect to enforcement of the regulation during the several periods it had been in effect. The

1/17/52

-2-

memorandum described the standards currently being applied by the Office of the Solicitor in determining what recommendation to make concerning action to be taken in specific cases of violation, and recommended that the Board adopt certain stated principles as the basis for its future policies of compliance and enforcement.

Mr. Evans said that it was important that the representatives of the Board who would attend the series of interbank regional Regulation W conferences beginning later this month be prepared to answer questions which undoubtedly would arise as to enforcement policy, that he saw no way of enforcing the regulation satisfactorily except through the establishment of a uniform procedure such as outlined in Mr. Townsend's memorandum, that in his opinion adherence to such a policy would assure equitable treatment to registrants in all sections of the country, that the Reserve Banks should be apprised of the type of enforcement program which the Board expected them to undertake, and that if the Board held the view that the selective credit regulations were important instruments of Federal Reserve credit policy and should remain in effect, it followed that it was necessary to maintain an adequate enforcement program. Reviewing a discussion which he had with the Reserve Bank Presidents at the time of the Presidents' Conference last May, Mr. Evans said that although it was evident that many of the Presidents found the enforcement of Regulation W a distasteful task,

1/17/52

-3-

they took no particular exception to his statements as to the necessity for an adequate enforcement program so long as the regulation was in effect, and they indicated that it would be helpful if the Board would adopt a definite statement of policy for their guidance. Mr. Evans also recalled that during his discussion some months ago with the Joint Congressional Committee on Defense Production concerning problems arising out of trade-in allowances, it was apparent that members of the Committee expected that the regulation would be properly enforced by the Board.

Chairman Martin stated that the Board had decided at the meeting on December 4, 1951, that selective credit controls covering consumer and real estate credit were useful instruments and should be continued during the present emergency period, that so long as they were in effect the proper place for their administration, including compliance and enforcement, was in the Board, which was better equipped to handle them than any other Government agency, that the System should do a good job of bringing about compliance, that any compliance and enforcement program should be discussed fully with the Reserve Banks, that the Board did not have the time to devote to a series of enforcement matters, particularly administrative hearings, if it was to give the necessary attention to other matters of greater importance, and that it should consider every possible means of decentralizing the

1/17/52

-4-

administration of the enforcement program to the Reserve Banks, not only because of the time involved but also because they were in a better position to judge what actions should be taken in specific cases of non-compliance by reason of their familiarity with local conditions and circumstances peculiar to individual cases. Chairman Martin went on to say that he questioned the desirability of customer contacts as a routine part of investigations and felt that all such contacts involved elements which merited most careful consideration in terms of their effects upon both the System and the registrants concerned. He added that he was reluctant to see the Board in the position of a police agency, particularly when it was administering a regulation having only temporary status, and that he was not impressed by the argument that uniformity of enforcement through coordination at the Board level was essential to a satisfactory administration of Regulation W, except in the case of criminal guilt. Chairman Martin emphasized that he was not concerned about unfavorable effects of publicity in connection with violators of the regulation but that he was concerned with whether the System was doing the best kind of job of bringing about compliance with and acceptance of the consumer credit regulation not only by registrants but by the public generally, that such a job could not be done if the enforcement program ran counter to good public relations, and that the best public relations efforts of the Reserve System would be required to obtain maximum compliance.

1/17/52

-5-

During a general discussion Mr. Evans and Mr. Townsend elaborated on their views as to the need for uniform enforcement procedure in all of the Reserve Districts and expressed the opinion that a program conducted along the lines contemplated in Mr. Townsend's memorandum might result within the foreseeable future in a substantial reduction in the number of violations. In their comments, both Mr. Evans and Mr. Townsend stated that they felt administrative hearings by the Board looking toward suspension of a registrant's license under section 8(b) of Regulation W should be held to a minimum, although they did not feel it would be desirable to adopt a policy of not having any such hearings. Mr. Townsend also stated that it was not essential that investigators make customer contacts at their homes or places of business since the necessary information could be obtained from customers by use of subpoenas. He expressed the view, however, that violations discovered in the course of investigations of registrants must be acted upon, particularly when there was evidence of continued violation after admonition, and suggested that in the circumstances the fundamental decision for the Board to make was the extent to which investigatory programs should be maintained.

Following statements by the other members of the Board present which indicated general agreement with Chairman Martin's position that the preponderance of the work of the Reserve Banks should lie in the

1/17/52

-6-

direction of achieving compliance with Regulation W through familiarizing the public, including registrants, with its objectives and provisions, it was understood that the discussion of the enforcement program would be continued at another session this afternoon.

Consideration was given to a letter dated January 11, 1952 from President Young, of the Federal Reserve Bank of Chicago, stating that the Executive Committee of the Bank had requested that the Board of Governors authorize the Bank to retain architects to prepare plans for a four-story addition to the head office building.

Mr. Leonard stated that the Chicago Bank had been considering for some time possible means of meeting space requirements and had now concluded that an addition to the building was the most feasible solution. He added that in view of the defense emergency and current shortages of materials, the Bank did not intend to go further at this time than the preparation of detailed plans for submission to its directors and later to the Board.

Thereupon, upon motion by
Mr. Norton, unanimous approval
was given to a letter to Mr. Young
reading as follows:

"The Board has considered your letter of January 11, 1952, and authorizes your Bank to have plans prepared for the construction of an additional four stories to the Bank's present building.

1/17/52

-7-

"It is noted that you realize the defense emergency and scarcity of materials would prevent building at this time, but that you wish to prepare plans for submission to the directors and later to the Board of Governors, so as to be ready when labor and materials are available."

Chairman Martin reported that pursuant to authority granted him at the meeting on January 8, 1952, he had negotiated with Arthur Andersen & Co., Certified Public Accountants, to conduct an audit of the Board's accounts, and that the company was willing to undertake an audit examination of the records for the three months ending March 31, 1952 and to submit a prospectus report containing comments and suggestions on procedures and operating practices as a basis for further discussion of possible improvements in operating methods and organization, all at a cost not to exceed \$3,000, with work thereon to commence not later than April 30, 1952.

Upon motion by Mr. Norton, unanimous approval was given to the retention of Arthur Andersen & Co. on the basis indicated and to letters as follows for the signature of the Chairman:

Letter to Arthur Andersen & Co., Accountants and Auditors,
Wyatt Building, Washington, D. C.

"The Board of Governors has approved the arrangement set forth in your letter of January 16 under which it is understood that your firm will undertake (a) an audit examination of the records of the Board of Governors for the three months ending March 31, 1952, and (b) submit a prospectus report containing comments and suggestions on procedures and operating practices, the latter to serve as a basis for further discussion of possible improvements in operating methods and organization. It is understood

1/17/52

-8-

"that your fee for this work will not exceed \$3,000 and will be undertaken prior to April 30, 1952. As you know, the auditors of the Federal Reserve Bank of Boston will audit the Board's accounts as of December 31, 1951, and as soon as we hear from them as to when the audit will be undertaken, I will get in touch with you.

"Pursuant to provisions of the law, the Board levies assessments against the Federal Reserve Banks in December and June of each year for funds to cover its expenses for the succeeding six months. Funds in payment of such assessments are transferred directly by the Federal Reserve Banks to an account at the Federal Reserve Bank of Richmond on which checks in payment of the Board's expenses are drawn. The Federal Reserve Bank of Richmond is being advised of the arrangement being made with your firm and I am sure the officers of the Bank will be glad to cooperate with you in every way possible in connection with your audit."

Letter to Mr. Hodgkinson, Chairman,
Federal Reserve Bank of Boston.

"As you know, auditors of the Federal Reserve Bank of Boston have audited the books and accounts of the Board of Governors for the last three years and with the completion of their year-end audit for the calendar year 1951, their assignment will be completed.

"Mr. Fogg, during his audits, and currently Mr. Strong, have performed very ably, and the Board commends them for the manner in which they have handled this work. The Board also appreciates the cooperation it has received from your Bank in making the time of Mr. Fogg and Mr. Strong and their staff available.

"As you are being advised in a separate letter, the Board is discontinuing the arrangement of having its books audited by Reserve Bank auditors and will use instead the services of a public accounting firm."

In this connection unanimous approval
also was given to the following letter to

1/17/52

-9-

to the Chairmen and Presidents of all
Federal Reserve Banks:

"Since 1933 it has been the policy of the Board of Governors to have its accounts audited twice each year by auditors from a Federal Reserve Bank selected by the Board for the purpose. These selections have been made on a basis of rotation and since the arrangement was put into effect originally the accounts of the Board have been audited by the auditing staffs of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, and Chicago. The Board has been satisfied that thorough audits of its accounts have been made by the Federal Reserve Bank auditors and the Board appreciates the cooperation of the Banks in this connection.

"However, question has been raised as to whether the arrangement of having the Board's accounts audited by Federal Reserve Bank auditors conforms to the most conservative practice and in order that no such question may exist the Board has decided to have its accounts audited by a recognized firm of public accountants.

"In accordance with this decision the Board has arranged for an audit by Arthur Andersen & Co., and a copy of a self-explanatory letter to the firm is enclosed for your information."

The meeting then recessed and reconvened at 3 p.m., with the same attendance as at the conclusion of the morning session except that Mr. Hackley, Assistant General Counsel, was in attendance and Mr. Thomas was not present.

Pursuant to authority granted at the meeting of the Board on December 7, 1951, Mr. Powell had designated Mr. Leonard to confer with representatives of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation regarding the formulation of a

1/17/52

-10-

program for rehabilitation of the banking system in the event of an enemy attack. The National Security Resources Board had requested that representatives of the three Federal bank supervisory agencies meet with members of its staff to discuss such a program, and Mr. Powell stated that Mr. Leonard and Mr. Hackley had attended several meetings for this purpose during the past month.

At Mr. Powell's request, Mr. Leonard reviewed the discussions to date of the interagency committee, stating that the Comptroller's Office had proposed a plan based somewhat on procedures followed during the banking holiday of 1933 under which the President by executive order would delegate to the Secretary of the Treasury the right in the event of an enemy attack on the country to suspend or curtail all bank operations. In the event of enemy attack the Secretary of the Treasury would issue a regulation suspending all banking operations and at the same time issue a general order authorizing banks to resume operations except as to cash withdrawals. The order would prohibit cash withdrawals unless the management believed that the cash on hand and available cash supplies were adequate to meet withdrawal requirements. This restriction could be waived by the management whenever it determined that cash supplies were sufficient for all requirements, but so long as cash withdrawals were limited, available cash would have to be used to meet:

1/17/52

-11-

(1) expenses vital to the defense effort, (2) necessary living expenses of the depositor, and (3) reconstruction costs.

He reported that it was also proposed that if a bank were faced with heavy withdrawals and had seriously depleted its balances with other banks, including the Reserve Bank, it be given the right to issue negotiable checks or drafts secured by unpledged Government securities of like amount, which checks, payable only to a Federal Reserve Bank or banking institution, would be accepted at par.

Regarding the problem of currency supplies, Mr. Leonard said that the Comptroller's Office, anticipating a heavy demand following a disaster, proposed (1) that a supply of currency equal to at least 15 per cent of bank deposits be accumulated, particularly in the smaller denominations, and (2) that the Bureau of Engraving and Printing acquire an additional plant outside Washington which could be used to facilitate the building up of this reserve supply and to carry on operations in the event of an emergency. It also proposed that, in the event the country were attacked, the Secretary of the Treasury be authorized to issue an order authorizing the Reserve Banks to issue scrip under certain conditions up to a maximum amount of \$5 billion. Mr. Leonard went on to say that the Comptroller's Office also had raised the question of how far the Reserve Banks would go in extending credit to nonmember banks during an emergency period.

Mr. Leonard said that in reviewing these proposals he had been concerned by the fact that the Secretary of the Treasury, rather than

1/17/52

-12-

the Board, would be given authority over the operations of the Federal Reserve Banks, and that he also questioned the necessity of closing all banks automatically, feeling that the public interest might better be served by letting the decision rest with the individual institutions. Accordingly, he wished to present at the meeting of the interagency committee tomorrow an alternative draft which would incorporate the permissive approach and provide that while commercial banks would proceed under orders of the Secretary of the Treasury, the Federal Reserve Banks would come under regulation of the Board. He also said that he had discussed the matter by telephone with Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, who had been designated by the Conference of Reserve Bank Presidents to coordinate System preparations for dealing with problems incident to war disaster, and that Mr. Rounds expressed lack of sympathy with the idea of attempting to make deposits freely available in the form of currency, or by transfer or withdrawal in the event of an emergency, feeling that the Government or the Federal Reserve Banks should be empowered to limit withdrawals or cash payments if the situation warranted.

Mr. Leonard explained that it was the intent of the interagency committee to draw up certain proposals which would be turned over to the legal staffs for review, particularly to determine what additional

1/17/52

-13-

legislation would be required to put them into effect, that thereafter a few bankers would be called in for consultation, and that as a final step the views of organized banking and the National Association of Supervisors of State Banks would be solicited.

Mr. Powell said that he had worked closely with Mr. Leonard on this matter, that he agreed with the permissive approach as against an automatic suspension and reopening of all banks, that he thought the Board rather than the Secretary of the Treasury should have power to direct the operations of the Reserve Banks, and that he saw no reason why nonmember banks should not be extended the discount privilege.

There was general agreement with Mr. Powell's statements and it was also the consensus that Mr. Rounds' position with respect to limitations on currency transactions and deposit withdrawals was well taken. It was the further view of the Board that the work of the interagency committee should be closely guarded for the present since a leakage of the plans might cause certain disruptions in banking relationships, although at a later date it might be feasible to have the plans appraised by a few selected bankers. It was understood that Mr. Leonard would proceed in the light of these views.

Messrs. Leonard and Hackley withdrew from the meeting at this point.

1/17/52

-14-

Chairman Martin then referred to the discussion at the morning session of the enforcement program for Regulation W stating that he had given further thought to the matter and that he was convinced that the Board should be very careful not to overrule a recommendation of a Federal Reserve Bank as to action to be taken in connection with a violator unless the Board had had a full discussion of the case. He reiterated that he felt uniformity was not important in administering the regulation in various parts of the country, that the principal emphasis by the System should be placed on obtaining compliance with the regulation, that enforcement activities were a necessary part of the program along with compliance, but that it was not necessary or desirable to engage in a program involving drastic actions of a punitive nature for violation of a temporary regulation which, at most, was having but a slight effect on the money supply.

In response to Chairman Martin's request for views of other members of the Board, Mr. Powell stated that he felt the regional conferences such as those planned during the next few weeks were very worthwhile as a means of helping to bring about better understanding by the Reserve Banks of enforcement procedures, that to some extent at least the Reserve Banks were thinking of the enforcement program from the standpoint of how it fitted into their public relations programs, that some of the Banks were particularly disturbed about the possibility

1/17/52

-15-

of administrative hearings such as the one involving H. Bartels, Inc., of Philadelphia, that they would prefer to use the courts for violators who did not respond to milder treatment, and that in his judgment it would be desirable if the Board would indicate to the Reserve Banks that it did not contemplate additional administrative hearings.

Mr. Evans stated that while the Board had authorized him to approve recommendations for referring cases of willful violators of Regulation W to the Department of Justice for possible criminal prosecution, it had provided that any recommendations for administrative hearings must be brought before the Board at a meeting for consideration and action. He also called attention to the provision in the proposed statement of procedures contained in Mr. Townsend's memorandum that in forwarding a report of a violator to the Board the Reserve Banks must make a recommendation respecting the action to be taken by the Board supported by a complete statement of the factors entering into such recommendation. Mr. Evans felt, therefore, that the likelihood of administrative hearings was rather remote and that they would be authorized only after full consideration by the Board of a recommendation by the Reserve Bank concerned.

Chairman Martin then called on Mr. Noyes who suggested that, as a means of at least partly meeting Chairman Martin's view that the Board should overrule a Reserve Bank recommendation for action against a

1/17/52

-16-

violator only after full discussion of the case, the proposed statement of procedure contained in Mr. Townsend's memorandum be modified to provide that, when the recommendation of the Solicitor's Office concerning action to be taken in a case of willful violator differed from the recommendation of the Reserve Bank, the Solicitor would discuss the case informally with the Reserve Bank to ascertain if a unanimous recommendation could be reached. If such a unanimous recommendation could not be agreed upon, the recommendation of the Reserve Bank and that of the Solicitor would then be reported to the Board for decision.

Chairman Martin said that a provision along the lines suggested by Mr. Noyes would make the proposed statement of procedure acceptable to him and Mr. Evans said that such a provision would be entirely satisfactory to him.

Following further discussion, upon motion by Mr. Evans, the procedure outlined on pages 18-21 of Mr. Townsend's memorandum, revised to incorporate Mr. Noyes' suggestion, was approved unanimously as representing the views of the Board. In this connection, unanimous approval was also given to a letter to the Presidents of all Federal Reserve Banks in the following form:

"In accordance with the suggestion made by the Presidents at their last joint meeting with the Board, the Board has reviewed very carefully its program and procedures for obtaining compliance with Regulation W and for the enforcement of that regulation.

1/17/52

-17-

"The Board feels very strongly that every reasonable emphasis should be placed upon the compliance aspects of the program as distinguished from the enforcement aspects. To the greatest extent possible Registrants should be persuaded that both the national interest and their personal interest are best served by adherence to the requirements of the regulation.

"At the same time the Board recognizes that there will inevitably be some instances in which a Registrant will continue to violate the regulation and where some further action will be necessary to protect the public interest. The prompt and equitable handling of such cases is an unavoidable part of the Board's responsibility under the law. In order to clarify and expedite the treatment of such cases the Board has approved the following principles as the basis for the Regulation W compliance and enforcement programs:

(1) That the Reserve Banks continue to employ every reasonable means of an informational or other nature for bringing about maximum public understanding of the Regulation and maximum willingness on the part of registrants to comply with the Regulation. This part of the Reserve Banks' activities should be denominated the 'Compliance Program'.

(2) That the Reserve Banks continue to make investigations of registrants to ascertain if they are in fact complying with the Regulation. The detection of violations, coupled with the review and disposition by the Reserve Banks and the Board of investigation reports disclosing such violations, should be denominated the 'Enforcement Program'.

(3) That the number of such investigations and their allocation among different classes of registrants continue at a rate not less than that now being undertaken.

(4) That to the extent reasonably possible of attainment the investigation techniques employed by the investigators at the various Reserve Banks be uniform. At as early a date as possible the Board should revise its 'Outline of Enforcement Program' to prescribe uniform standards for as many phases of the investigation process as may be feasible. Such standards might be applied, among others, to such subjects as

1/17/52

-18-

- "(a) Number of investigators used in specific investigations according to the size and nature of the business of a registrant;
- (b) Minimum number of transactions to be reviewed in each investigation;
- (c) When customer contacts are mandatory; when permissive;
- (d) Classifications of violations and violators;
- (e) Reports of investigation.

Some time could profitably be spent at forthcoming regional conferences in considering appropriate standards for these and other matters identified with the investigation process.

(5) That all reports of investigation disclosing violations of the Regulation be reviewed by counsel at the Reserve Banks. In addition, that effective liaison exist at all times between counsel and the Regulation W staffs at the Reserve Banks to the end, among other things, that investigators may be instructed in such purely legal aspects of the investigation process as evidentiary standards, elements necessary to be proved in order to demonstrate 'willfulness', and the like.

(6) That the Reserve Banks continue to have discretion for dealing with a registrant who has violated the Regulation for the first time, whether such violations are inadvertent, negligent, or apparently willful. The Reserve Banks may decide in such cases to do no more than write an admonitory letter (which should be the minimum action taken in all such cases). Or they may decide to hold a disciplinary conference (a preferable term for this would be 'compliance conference') in which case a formal record of the conference should be retained. Or the Reserve Banks may decide that the facts are such as to warrant referring the case to the Board for its review and possible action. To assure maximum uniformity by all Reserve Banks in handling first violators, the Banks themselves, with such help from the Board's staff as they may request, should attempt to work out appropriate standards of general application. Perhaps the creation of a revolving committee of Bank personnel (which should include at least one Bank counsel) might be helpful in this connection.

1/17/52

-19-

"(7) That whenever a report of investigation discloses apparently willful violations by a registrant previously reported as violating the Regulation, the Reserve Banks decide at their election whether to hold a further conference with such registrant, but that in all such cases the report of investigation be referred to the Board for review by it. That in forwarding such reports to the Board the Reserve Banks make their recommendation respecting the action to be taken by the Board, supported by a complete statement of the factors entering into such recommendation.

(8) That when reports of investigation are received at the Board they be processed in the manner now being followed. The Solicitor will prepare a memorandum to the Board containing a short outline of the facts of the case and a recommendation of what action, if any, the Board should take. In determining upon such recommendation the Solicitor should continue to apply the standards now being applied by him. Whenever the recommendation of the Solicitor is different from that of the Reserve Bank, he will discuss the matter with the Reserve Bank to ascertain if a unanimous recommendation can be reached. If such a unanimous recommendation can not be agreed upon, the recommendation of the Reserve Bank and that of the Solicitor shall be reported to the Board for decision.

"The Board's staff will be prepared to discuss the application of these principles with the staffs of the Reserve Banks at the forthcoming Regulations W and X conferences, and the Board will of course be glad to go over them with the Presidents at the next Presidents' conference."

At this point Messrs. Noyes, Chase, Swan, and Fauver withdrew from the meeting.

Pursuant to the understanding at the meeting on January 10, 1952, there had been sent to the members of the Board copies of a memorandum from Mr. Vest dated January 11, to which was attached a memorandum showing

1/17/52

-20-

the status of various legislative proposals of interest to the Federal Reserve System. Following a brief discussion, it was understood that this matter would be given further attention at a subsequent meeting.

Mr. Bethea, Director, Division of Administrative Services, joined the meeting at this point.

Mr. Evans referred to a letter addressed to Chairman Martin under date of December 28, 1951 by Mr. Russell Forbes, Acting Administrator, General Services Administration, requesting a progress report outlining steps taken by the Board to comply with Personal Property Management Regulation No. 24 of the General Services Administration, as revised, with respect to motor vehicle identification.

At Mr. Evans' request, Mr. Bethea outlined the requirements of the General Services Administration regulation providing that any Federal agency shall, with certain exceptions, conspicuously identify every motor vehicle acquired and used by it for official purposes within the United States by displaying the full name of the agency by which it is used and the legend "for official use only". Mr. Bethea stated that while certain Board cars had always borne U. S. Government shields other cars bore only the Board's seal, which did not comply fully with the General Services Administration regulations, which, in

1/17/52

-21-

the opinion of the Legal Division, were applicable to the Board.

Following a discussion, it was the consensus of the members of the Board present that the Board should comply fully with the regulations of the General Services Administration concerning motor vehicle identification.

Thereupon, unanimous approval was given to a letter to Mr. Russell Forbes, Acting Administrator, General Services Administration, Washington, D. C., in the following form:

"This is in reply to your letter of December 28, 1951 to Chairman Martin, requesting information as to the status of the motor vehicle identification program.

"The Board has four passenger automobiles and one station wagon. All of these vehicles are equipped with U. S. Government tags and bear U. S. Government shields with the legend 'For Official Use Only.' The words 'Federal Reserve' are displayed directly beneath the Government shields on each car as Agency identification.

"I trust this information is satisfactory for your purposes."

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sloan withdrew from the meeting.

Mr. Powell referred to a memorandum prepared in the Division of Examinations under date of January 3, 1952, relating to the application made by The Continental National Bank and Trust Company, of Salt Lake City, Utah, in anticipation of its conversion to a State bank under the title "The Continental Bank and Trust Company", for membership of

1/17/52

-22-

the converted bank in the Federal Reserve System. The memorandum, copies of which had been sent to the members of the Board prior to this meeting, reviewed the relatively high ratio of loans to total deposits, loans for the accommodation of affiliated and other banks, the indebtedness of the chairman of the bank and members of his family to the national bank and to affiliated banks, the low capital ratio of the bank and the controversy between the chairman of the bank (Walter E. Cosgriff) and the Office of the Comptroller of the Currency over a period of several years because of the bank's liberal loan and dividend policies and its alleged over-loaned and under-capitalized condition. The memorandum also referred to the proposed certification of the bank to the Board by the Comptroller of the Currency in 1950 under section 30 of the Banking Act of 1933 and the position taken by the Board at that time that it would be inadvisable to make such certification. The memorandum further stated that there were no serious problems in the bank's assets and concluded that, since the bank was now a member, it would appear that little would be lost and there might be some gain in approving the application for membership.

Mr. Powell stated that he had gone over the file and questioned whether the bank should be admitted in the light of its capital position, its liberal loan policy, the borrowing of the owners from the applicant

1/17/52

-23-

and other banks, and other matters which were the subject of criticism. He said that it had been his experience that if banks were admitted to membership in an unsatisfactory condition they were usually a source of trouble and that in the circumstances his recommendation would be to inform the bank that the Board would not be willing to approve the application until the bank had increased its capital.

In response to a request that he state Mr. Vardaman's views on the matter, Mr. Sloan commented on the condition of the bank and the reasons for the recommendation of the Division of Examinations that the application be approved. He then stated Mr. Vardaman's feeling that, inasmuch as the bank was now a member and was converting under a Federal law which permitted the converted State institution to continue as an insured bank, and since the Comptroller of the Currency had not been able to influence the bank to provide additional capital and it appeared impracticable to sell additional capital at this time, he would not stand in the way of the conversion and the admission of the bank to membership with the understanding that approval of the application did not in any way constitute approval of the bank's capital position or a surrender of the Board's right to press for additional capital in the future.

Mr. Sloan also referred to discussions which representatives

1/17/52

-24-

of the Federal Reserve Bank of San Francisco had had with Mr. Cosgriff and the commitments he had made with respect to the future conduct of the affairs of the bank.

The matter was discussed in the light of the need of the bank for additional capital during which Chairman Martin suggested that in the absence of some development requiring further consideration while Mr. Vardaman was away, the matter be deferred until the first meeting of the Board after his return to the office in February.

This suggestion was approved
unanimously.

At the meeting of the Board on December 17, 1951, in connection with a discussion of the application of the Marine Midland Corporation for a voting permit covering the controlling stock interest of the National Chautauqua County Bank of Jamestown, New York, the suggestion was made and approved by the Board that the Presidents of all of the Federal Reserve Banks be advised by letter of the position taken by the Board at that time with respect to future acquisitions of bank stock by the Corporation so that the Presidents would know of the Board's action and would be able to advise bank holding companies in their respective districts of that position.

At Mr. Evans' request, the Secretary outlined the reasons why

1/17/52

-25-

it was felt that a letter of the kind suggested would be undesirable at this time and all of the members present concurred that the letter should not be sent.

Mr. Sloan then withdrew from the meeting 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 January 16, 1952, were approved unanimously.

Memorandum dated January 9, 1952, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Patricia R. Kelley, Clerk in that Division, be accepted to be effective, in accordance with her request, as of the close of business December 22, 1951.

Approved unanimously.

Memorandum dated January 11, 1952, from Mr. Riefler, Assistant to the Chairman, recommending an increase in the basic salary of Catherine L. Schmidt, Secretary to Mr. Riefler, from \$4,600 to \$4,725 per annum, effective January 20, 1952.

Approved unanimously.

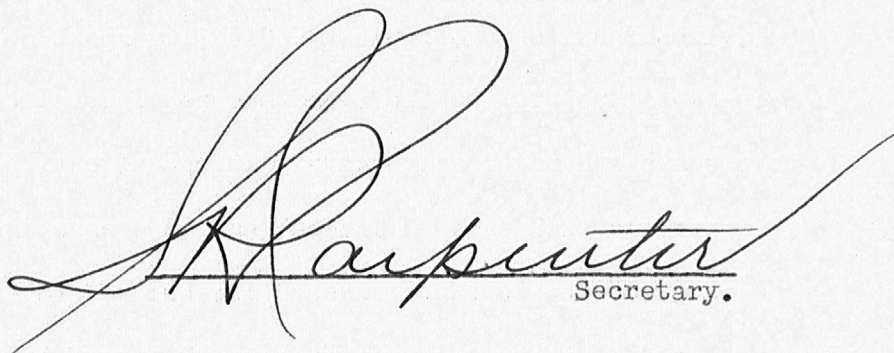
Memorandum dated January 14, 1952, from Mr. Marget, Director, Division of International Finance, recommending for reasons stated

1/17/52

-26-

therein that the Board make a \$200.00 contribution annually to the State Department to assure the continuation of "The Joint Press Reading Service", maintained jointly by the United States and British Embassies in Moscow.

Approved unanimously, with the understanding that this expenditure was not included in the previously approved budget of the Board for 1952.


Secretary.