

A joint meeting of the Board of Governors of the Federal Reserve System and the Conference of Presidents of the Federal Reserve Banks was held in the Board's offices in Washington on Thursday, June 19, 1952, at 3:30 p.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Powell  
 Mr. Mills  
 Mr. Robertson

Mr. Carpenter, Secretary

Messrs. Erickson, Sproul, Williams, Gidney, Leach, Bryan, Young, Johns, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco, respectively.

Mr. Van Nice, Secretary of the Conference of Presidents.

Mr. Heflin, Secretary-Designate of the Conference of Presidents.

Chairman Martin stated that the Board had received a request for some information in connection with the Defense Program which would have to be obtained from certain banks in various parts of the country and that he was mentioning the matter at this time so that the Presidents would have it in mind and would know the reason for it when the request was received by them that they obtain the information from the banks involved.

Before this meeting there had been submitted to the Board copies of a memorandum listing the topics to be discussed at this joint meeting and stating the views of the Conference of Presidents with respect to each

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topic. The topics, the statement of the Conference of Presidents with respect to each, and the discussion concerning them at this joint meeting were as follows:

1. Study of Nation's check collection system. The Conference considered the interim report dated May 14, 1952, of the Committee on Check Collection System which was appointed pursuant to the action of the Conference at its meeting of February 27-28, 1952. This report set forth the proposed scope of the study in broad outline. The Conference also considered an informal report made by the Chairman of this Committee covering the Committee's meeting of June 9-11, 1952, which was devoted to a consideration of arrangements for a public announcement of the proposed check collection study and the preparation of questionnaires to be submitted to a selected group of commercial banks. Subject to Board approval, the Conference approved the Committee's recommendation that the Federal Reserve System absorb the printing and mailing expenses involved in making the necessary announcements of this study and in circulating questionnaires for survey purposes, and agreed that the System should also absorb the expense incurred in connection with the employment of a man in the management consultant field to serve as adviser to the Committee and ordinary clerical and other office expenses. The Conference accepted the suggestion that the Federal Reserve Bank of New York advance such expenses with the understanding that each Reserve Bank would later pay its pro rata share. The conference would like to have the Board's suggestions and comments with regard to any and all phases of the proposed study.

Chairman Martin stated that the Board concurred in and approved the procedure outlined in the above statement with respect to the payment and distribution of expenses incurred in connection with the proposed study.

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2. Amendment of the Loss Sharing Agreement of the Federal Reserve Banks to include coverage of fire and allied risks. After considerable discussion of this topic, the Presidents voted 10 to 2 to accept the recommendation of the Insurance Committee of the Federal Reserve Banks in its report of April 23, 1952 (pp. 12-15), for including fire and a broad list of allied risks under the Loss Sharing Agreement. The two members of the Conference who opposed adoption of the plan proposed by the Insurance Committee indicated that they could not recommend self insurance of fire and allied risks to the directors of their respective Banks. The Conference would welcome the Board's views on this matter.

Chairman Martin stated that the Board favored the principle of self-insurance and hoped that an arrangement could be worked out to apply the principle to fire and allied risks. He then called on Messrs. Gidney and Johns, who did not favor the proposed amendment to the loss sharing agreement, for statements of their views.

Mr. Gidney said that he did not think that the study made by the subcommittee had been adequate; that its conclusions seemed to be based solely upon the theory that because the Federal Reserve Banks had paid approximately \$1,000,000 in premiums and had collected only \$100,000 in losses, the System was paying too much for insurance protection, which approach disregards accepted principles of insurance; and, also, the committee report seemed to be based on the theory that only people who could not afford to take a loss should carry insurance. He said that he believed there should have been consultation with authorities on the principles of insurance, including such a person as Professor Huebner of the University of Pennsylvania, and that opinions of such men should be obtained before the Federal Reserve Banks are asked to take a position against purchase of insurance

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coverage, where it is available and suitable. He added that the Federal Reserve Bank of Cleveland carries \$6,500,000 of fire insurance at an annual cost of less than \$3,000; that this payment is a proper business expense for the Federal Reserve Bank and, at very low cost, affords protection to the none-too-large surplus of the Bank.

Mr. Johns said that he could not add anything to Mr. Gidney's statement other than that he proposed to report to the Board of Directors of his Bank at its next meeting what the recommendation of the subcommittee was, the action taken by the Presidents' Conference, and his own views on the matter. He added that he did not know whether the directors would conform to the System policy as indicated by the action of the majority of the members of the Presidents' Conference but that it would be his guess that that was what they would do.

Governor Vardaman stated that, while he favored the principle of self-insurance on the part of all Federal agencies, he questioned the desirability of providing that losses up to \$100,000 would be absorbed by the Bank suffering the loss and that he would prefer basing the absorbed loss on a stated percentage of the evaluation of the building involved. He also preferred to establish a specific reserve against possible fire and allied losses and favored a strict program of building inspection and the discipline that such a program would involve.

Mr. Gidney made the further comment that the subcommittee apparently had been unwilling to consider setting up insurance reserves as a part of their plan. It was his view that this aspect of the matter should have been taken into consideration.

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Concluding comments were to the effect that, although some large concerns had adopted a policy of self-insurance, others had continued or resumed the carrying of purchased insurance.

3. Payment of State and local taxes by Reserve Banks.  
The Conference discussed the Board's letter of May 23, 1952 to each of the Reserve Bank Presidents regarding payment by the Reserve Banks of State and local taxes. It was pointed out that application of the Section 7 exemption to the payment by the Banks of various Federal taxes is not particularly difficult since it is fairly clear in such cases where the incidence of the tax falls. It was suggested, however, that it is much more difficult in the case of State and local taxes to determine where the tax incidence lies. It was noted that the problem varies not only from district to district but also between States and localities within the districts. In these circumstances, the Conference feels that a uniform System policy regarding the payment of State and local taxes would not be feasible. The Presidents would, however, be interested in the results of the Board's recent survey of this problem and its views with respect thereto.

Chairman Martin stated that replies to the Board's letter of May 23, 1952, had not been received from all of the Federal Reserve Banks, that it was the consensus of the Board members that the practices with respect to payment of taxes of the kind referred to should be as uniform as possible, and that, when the information submitted by the Reserve Banks in response to the Board's letter had been tabulated, the results should be sent to the Federal Reserve Banks for their information.

In a brief discussion Mr. Leach stated that if after the information submitted by the Reserve Banks was available the Board wished to discuss

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it further with the Presidents, the matter could be placed on the agenda for the next meeting of the Conference of Presidents.

4. Salary administration for Federal Reserve Bank employees. With reference to the Board's letter of May 29, 1952 to the Conference Chairman, the Presidents agreed that the Reserve Banks should be among the leaders in salary administration in their respective areas. The Conference felt that if there has been a failure on the part of the Banks to accomplish this objective, it has probably been a failure in applying the Banks' stated policies rather than a defect of the policies themselves. The Conference recalled the work of its Subcommittee on Job Evaluation in 1947 and agreed that it was time to review the salary administration programs of the Reserve Banks. Appointment of a Conference subcommittee was authorized for this purpose. The Conference, however, would appreciate having the Board's views on the subject.

Governor Evans reviewed the considerations which led to the adoption of the existing job evaluation and salary classification procedures at the Federal Reserve Banks and stated that, when he and Mr. Norton were members of the Board's Personnel Committee, they came to the conclusion that it would be in the interest of more efficient operation of the Federal Reserve Banks if the mid-points of the salary grades in the classification plan could be set within the fourth quarter-bracket of salaries paid by local progressive organizations, and that, when Mr. Norton was in the Board's offices a few days ago, he stated that he felt even more strongly that such a step would be a desirable one, not only for the Federal Reserve Banks but for commercial banks as well. Governor Evans also stated that the Board

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would be glad to work with the Presidents' Conference committee in a further study of the matter.

President Leach stated that it had been five years since the job evaluation procedure was adopted and that, even if the Board had not raised a question with respect to the manner in which the procedure was being administered, the Presidents would feel that the plan should be reviewed so that the Banks and the Board would be in a position to determine what the salary scales should be and whether the plan was being satisfactorily administered.

5. Free delivery of currency and coin to member banks.  
The Chairman of the Conference noted that the Board had requested that the question of possible free delivery of currency and coin to member banks in Reserve Bank and branch cities be placed on the agenda for this Conference meeting. This question was raised by representatives of the Association of Reserve City Bankers who alleged that the present arrangements were discriminatory in that the Federal Reserve Banks are providing free delivery of currency and coin to country member banks but do not provide this service to member banks located in Reserve Bank and branch cities. The Conference agreed that a current study of the proposal such as that suggested by the Board should be made and referred the matter to its Committee on Bank and Public Relations for study and report.

Chairman Martin stated that it did not appear that this topic called for any comment or action by the Board.

Mr. Leach said that the basis for the existing policy with respect to the delivery of currency and coin to member banks had changed somewhat

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over the years in that the Federal Reserve Banks had found it cheaper in many instances to ship currency and coin by armored car rather than mail, with the result that shipments were being delivered directly to the doors of a country bank. He added that when the mails were used, the country bank was under the necessity of picking up the shipment at the post office, which placed it in substantially the same position as a member bank in a Federal Reserve Bank or Branch city, that the city banks had recognized that deliveries were now being made directly to the country banks which had caused them to raise the question, and that for that reason the whole matter should be studied to determine what changes, if any, should be made in the existing policy.

6. Promotion of sales of new savings bond issues. The Presidents discussed the Board's letter of June 9, 1952 to the Conference Chairman concerning the question how details of the new savings bond issues could best be disseminated to the public through the banks on a continuing basis. At the invitation of the Conference, Mr. Overby of the Treasury Department reviewed the objectives of the Treasury's savings bond program and solicited the support of the Reserve Banks in the accomplishment of these objectives. The Conference would welcome a discussion of this matter with the Board.

It was the understanding of the Board that during the Presidents' Conference the Presidents had agreed to take such steps as might be necessary to acquaint members of their staffs fully with the new program and the new issues of savings bonds, that the representatives of the Federal Reserve Banks would mention the program in their contacts in their respective

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Federal Reserve Districts, and that the Federal Reserve Banks' economists would take occasion to discuss the need for savings on the part of the public and how the savings bond program fitted into the maintenance of sound fiscal and monetary policies in the present emergency.

Chairman Martin stated that the System had a real responsibility to promote as wide an understanding of the Treasury's savings bond program and of the advantages of the savings bonds being offered by the Treasury as it was reasonably possible to bring about, that this responsibility on the part of the System would require constant attention, and that it was important that the Federal Reserve Banks and the Board assume that responsibility and take such steps as were necessary to see that it was carried out effectively. Other members of the Board expressed similar views.

This concluded consideration of the matters listed by the Presidents for discussion at this meeting.

7. Member bank supervision and examination. Governor Robertson stated that he would like to discuss with the Presidents and seek their cooperation on some of the things which the Board was proposing in the field of bank supervision and examination. He said that it was realized fully that he would be charged by some groups of trying to "comptrollerize" the Federal Reserve System, that he was satisfied that the Presidents would realize that that was not the case, that what the Board was trying to do was to improve the quality of bank supervision by the System and to solve any problem

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cases as they arise, rather than when it was too late to take effective action, and that to that end the whole weight of the System should be thrown behind corrective measures and, where necessary, action should be taken to oust banks from the System or to remove officers or directors. He was satisfied that such action when fully justified would not in any material way impede the System's program for increasing membership in the System. He added that the System should be in a position to cooperate to the fullest extent with other Federal bank supervisory agencies, that there were many cases where the System could be of material assistance to the Comptroller's office in getting corrections in national banks since some of those institutions consult with Federal Reserve Banks when they get into trouble, and that if the System did not take necessary steps to effect corrections in State member banks it could not object to the F.D.I.C. doing so. He then outlined the proposals which the Board had in mind, as follows, stating that there was no intention to try to put them into effect overnight but to regard them as a long-range program to be made effective over a period:

(a) School for assistant examiners. He expressed appreciation of the letters he had received from the Federal Reserve Banks on the school and stated that the Comptroller of the Currency and the F.D.I.C. had agreed to cooperate, that a committee had been appointed to perfect the plan which had submitted a report, and that he expected to present the proposal to the Board next week and to get it into operation shortly. In response to an inquiry from Mr. Williams, Governor Robertson stated that it was not expected that there would be only one session of the school each

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year, that it was planned to have one or two sessions in Washington, and that thereafter it might be taken out into the field, possibly to the west coast and other points, with sufficient time between sessions to correct any difficulties that developed. While it was contemplated that the plan would be started slowly, if it proved to be satisfactory, another school could be started for examiners.

(b) Rating member banks. It was planned, in order to be able to discuss the condition of all member banks on the same basis, to ask the Federal Reserve Banks to rate each member bank on the basis of a formula which at the moment happened to conform in a large degree to a formula used by the Comptroller of the Currency. He also said that the formula might not be the best one but it could be perfected in use, and so that the Board might have a uniform basis of rating member banks this formula would be proposed. The Federal Reserve Banks could continue to use, for their own purposes, any basis for rating member banks that they might wish.

(c) Risk assets. An additional sheet would be included in the confidential section of the report of examination of each member bank showing a breakdown of risk assets so that it would be possible to see at a glance the risk-asset position of a bank and the extent to which these assets were covered by Government guarantee or protection in some other form.

(d) Closer cooperation between System examining staffs. One of the ways in which this could be accomplished would be to have members of the Board's Division of Examinations meet with the entire examining staff of a Federal Reserve Bank for the purpose of a full discussion of policy matters and any other questions that might be raised, so that the Board could have a first-hand feel of conditions in the different districts, perfect its own viewpoint, and be as helpful as possible in improving supervision on a system-wide basis. In this connection Governor Robertson referred to a proposal, which he had not discussed with the Board, of arranging to have two men at a time from the Federal Reserve Banks assigned to the Division of Examinations for a period of six months to serve as Assistant Directors of the Division and to have two of the Board's examining staff go into the field to assist in examining banks as a means of perfecting their knowledge of examining techniques and their ability to review examination reports.

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(e) Communications between the Board's examining division and the examination departments of the Federal Reserve Banks. At the present time there is a great deal of communication by telephone which makes it difficult to know from the record what has been done on any given case in the past. In order to meet that situation, it was proposed to handle matters by telegram or letter with ample allowance for exceptions in special cases. Such communications would be signed by the head or assistant head of the Division of Examinations after clearance with Governor Robertson, at least for the time being.

(f) Analyses of examinations of member banks. In order that the Board might have more complete information on the condition of all member banks, it was proposed to request each Federal Reserve Bank to submit to the Board analyses, on a form to be provided, of all reports of examination of member banks, both State and national, received by the Federal Reserve Banks from State authorities and from the Comptroller of the Currency.

(g) Communications between Federal Reserve Banks and their member banks. Some Federal Reserve Banks now send to the Board copies of all correspondence with member banks, and the Board plans to ask that this procedure be followed by all Federal Reserve Banks so that the Board may have current information on all matters of supervision under consideration with member banks.

President Bryan stated that the Atlanta Bank had already received from the Division of Examinations a letter signed by the Director of the Division relating to four member banks in which the problem of capital ratios and, in one case, a condition of membership were involved. He thought that in fairness he should say that he had been somewhat alarmed by the tone of the communication which posed a substantial problem in that it implied that the Atlanta Bank was to use substantially the same language and tone in dealing with the member banks. If that were done, he said, it would breach the Reserve Bank's tradition with respect to its

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dealings with its member banks. He added that he was also disturbed because he liked to see where he was going on a matter before he took the first step, and for that reason he would write a letter to the Board with regard to the four banks in which he would ask whether, if the banks refused to carry out the requests made in the Board's letter, it would stand back of a policy of expulsion from the Federal Reserve System. His letter to the Board, he said, would contain the recommendation that in one case the bank be invited to withdraw from membership but that in the other three cases, unless the Board was willing to adhere to a policy of expulsion, he would not want to approach the banks in the tone indicated in the Board's letter.

Governor Robertson expressed appreciation of Mr. Bryan's comments and emphasized that the letters were designed to say exactly what was intended, leaving no room for implications or assumptions. He stated that whenever a Federal Reserve Bank was doubtful as to the meaning of a letter from the Board or questioned whether there were implications in the letter, the Bank should take the matter up with the Board and get it clarified. This was important, he said, if the System was to take advantage of its decentralized organization and the closer knowledge of the Federal Reserve Banks of conditions in their respective districts. He also said that the letters that would be written by the Division of Examinations under the proposed procedure would contain, in effect, only suggestions as to possible actions, that if the Federal Reserve Banks had any question with respect

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to them they should discuss the matter with representatives of the Board before carrying out the suggestions, and that in all cases, because of their greater knowledge of local conditions, the Federal Reserve Banks should determine the method and tone of the approach in each case. When a particular matter had been discussed, he said, and a conclusion reached in the light of the possible final result of such action, the Board would stand behind it even to the extent of terminating membership in the System. He emphasized that under no condition should a Federal Reserve Bank take action pursuant to a letter from the Board unless the Bank was satisfied with the action and had no question as to the basis on which it was proposed, in the absence of a thorough discussion with Board officials. There would be differences of opinion at times, he said, with respect to adequacy of capital and other matters, but those differences should be resolved and an approach worked out which could be agreed upon by the Board and the Reserve Banks in a spirit of mutual confidence and cooperation.

In response to an inquiry from Mr. Earhart, Governor Robertson stated that there was no occasion to consult with the F.D.I.C. before a letter was written of the kind referred to by President Bryan, that the Federal Reserve System should discharge its supervisory responsibility with respect to State member banks in such a manner that the Corporation would not feel a need to take any action with respect to such banks, and that the Board wanted to work out a relationship with the F.D.I.C. and the Comptroller of the Currency which would be based on complete confidence in each

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other so that on similar problems uniform policies would be carried out by all three agencies.

President Williams commented that if there should be any indication to the general public that there was a difference of opinion between the supervisory agencies and that different policies were being carried out with respect to bank supervision, a very difficult public relations problem could be created for the System which could get out of control particularly in a period like the present. For that reason, he said, the System should proceed carefully to carry into effect the proposals discussed by Governor Robertson. He felt that if the System should take strong action on a substantial number of problem cases at one time and if the banks were not in sympathy with the System's policies and aligned themselves against such policies, the situation could result in difficulties for the System that should be avoided if possible to do so.

Governor Robertson reiterated that the program which had been outlined would have to be put into effect slowly and that it would be expected that a bank would not be expelled from membership until every other possible solution of the problem had been tried and exhausted.

President Williams referred to the regional differences with respect to banking standards and bank management and said that if the System should fail to take these differences into account, it could do violence to public opinion. He emphasized that some situations would have to be worked out in a number of conferences and after careful analysis and could not be handled by correspondence or by a single conference.

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Governor Robertson agreed that the problem was a very substantial one and stated that the realization of that point led him to the conclusion that the System could do a better job than anyone else because of its decentralized character and because advantage could be taken of the greater knowledge of local conditions on the part of the Federal Reserve Banks in getting the best results.

Chairman Martin said that the Board wanted to make certain that the System had a full understanding of problem cases as they began to develop so that, for instance, when there was a defalcation the System would not be faced with the statement that it knew about unsatisfactory conditions existing in the bank but for one reason or another did nothing about them. He did not see how the Board could proceed differently than was being proposed if advantage was to be taken of the decentralized organization of the System. He also said that the only way the Board and the Banks could work out any difficulties was to have frank discussions of current problems and develop effective methods of operation so that timely actions could be taken and the System would not be faced with the charge that it took no action in a situation about which it had been informed. He made the further statement that Governor Robertson had made a real effort to fit the System's supervisory and examination procedures into the concept of a decentralized system, that it should be the purpose of the System to provide adequate personnel and to perfect its procedures and

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relationships, and that the Board and the Banks should overcome any fear that they might have of the other bank supervisory agencies or of political or of public reaction to its actions, and should marshal the System's forces so that its policies could be supported in the face of attack from any quarter.

President Bryan expressed the opinion that the examination procedure of the System could be substantially improved. He favored the school for examiners and said that other things could be done to provide a more satisfactory basis for bank supervision, that he welcomed changes which were in the right direction, and that he concurred in the position that the System should meet problems of bank supervision as rapidly as they appeared rather than when they had assumed major proportions.

Chairman Martin stated that the important thing was to keep the problem "out on the table" where it could be discussed frankly and openly as had been done at this meeting. It was not a question, he said, of hurting anyone's feelings when policies were questioned but rather the adoption of policies which would discharge adequately the System's responsibilities. The only way that result could be obtained, he said, was for the members of the Board and the Presidents to speak frankly in the discussion of any questions so that the Federal Reserve Banks and the Board could find a common meeting ground.

Governor Vardaman referred to the position taken by representatives

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of the System in the past that the examination function should be used as an instrument of credit control and stated that as long as the fear of that concept was in the minds of the Federal Reserve Banks and the member banks it would be a serious obstacle to effective Federal Reserve supervision of member banks. It was his view that that point should be clarified before any program was adopted and that if that were done, the examination function should be placed in a new separate agency where the differences in examination policies in the three existing Federal bank supervisory agencies could be eliminated. He added that the plan outlined by Governor Robertson had been approved by the Board and it was hoped that everyone would get behind it. He questioned whether banks should be invited to withdraw from membership and felt that instead the System should hold the banks as members and take such steps as were necessary to have them comply with accepted bank standards, or, if they would not comply, to make it difficult for them to withdraw.

Mr. Szymczak expressed the view that there had been an increasing tendency in the joint meetings of the Presidents and the Board to handle quickly and without adequate discussion a number of topics and to allow inadequate time for the meetings, with the result that there was no opportunity to exchange ideas or to bring up matters that might well be discussed. He thought that the joint meetings were the proper place for such discussions and that while there might be differences of opinion or emphasis,

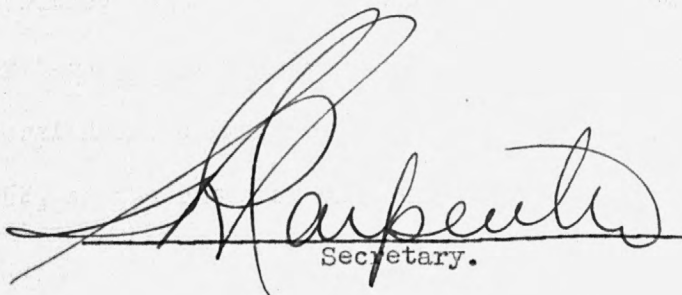
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if these were brought out in the discussions, it would make for better understanding between the Presidents and the Board and for more effective operation of the System as a whole. He repeated a comment that he had made on numerous occasions before that if the System was to remain strong, the Board would have to be strong and effective in its operations, that frank and open discussions were essential to such a result, and that he felt that the discussion at this meeting initiated by Governor Robertson had been very helpful.

Governor Vardaman concurred in Governor Szymczak's statement and suggested that consideration be given to having meetings of the Board and the Presidents before the meetings of the Presidents' Conference for the purpose of discussing informally and frankly any current matters that should be considered.

Thereupon the meeting adjourned.



Secretary.