Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 18, 1952. The Board met in executive session in the Board Room at 3:00 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Evans
Mr. Vardaman
Mr. Robertson

The Chairman later informed the Assistant Secretary that during the executive session unanimous approval was given to the request contained in a memorandum from Mr. Sloan, Director of the Division of Examinations, dated September 17, 1952, that he be authorized to attend the annual convention of the National Association of Supervisors of State Banks, to be held in Baltimore, Maryland, September 24-26, 1952.

At 3:05 p.m. the following members of the staff were called into the room:

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Boothe, Assistant Director, Division of Selective Credit Regulation
Mr. Hackley, Assistant General Counsel
Mr. Connell, Technical Assistant, Division of Selective Credit Regulation

Pursuant to the understanding at the meeting of the Board yesterday, a meeting with representatives of the guaranteeing agencies under the V-loan Program was held in the Board Room this morning to discuss the terms and conditions of a proposed loan to Reynolds Reduction Company, Richmond, Virginia,
to be guaranteed by General Services Administration, and to consider the rules which might be prescribed by the Board with respect to commitment fees, including any which might be charged prior to the execution of the loan agreement or other similar financing arrangement to make the loan, and prepayment premiums in connection with long-term loans for the purpose of financing facilities expansion. The meeting this morning, a memorandum of which has been placed in the Board's files, was attended by Governors Evans, Vardaman, and Robertson, members of the Board's staff, and representatives of all of the guaranteeing agencies except the Department of Agriculture.

At this time there was a review of the statements made and views expressed at the meeting this morning.

Following this review, Mr. Noyes stated that the staff had obtained some information with regard to current practices in the matter of prepayment premiums which indicated that in the case of private placements it was not uncommon for insurance companies to rule out the repayment of bonded indebtedness for a five-year period from the date of loan, after which repayment would be permitted with a premium beginning at approximately the coupon rate of the bonds and graduating downward.

At the request of Governor Vardaman, Mr. Noyes then read a draft of letter to the Federal Reserve Banks which he had prepared in the light of discussions at previous Board meetings and at the meeting with the guaranteeing agencies this morning setting forth rules which might be
adopted with respect to commitment fees and termination fees in V-loan financing. With regard to commitment fees, the draft took the position that any fee or charge in the nature of a commitment fee which would accrue prior to the execution of the loan agreement or other similar financing arrangement would operate to defeat the purpose of the prescribed maximum limitation on commitment fees of 1/2 of one per cent, and therefore, would not be permissible under the schedule of rates and fees prescribed by the Board. As to prepayment premiums in the case of long-term V-loans made for the purpose of facilities expansion, the draft stated that such premiums would be permissible under certain conditions and within certain limitations.

Governor Vardaman stated that he had come to the conclusion that lending institutions, particularly insurance companies, could not be expected to make long-term loans without some reasonable provision for a prepayment penalty and that, in all the circumstances, he felt the position taken in the draft of letter read by Mr. Noyes represented a reasonable solution to the problems under consideration. He also commented that at the conclusion of the meeting with representatives of the guaranteeing agencies this morning he inquired whether any person present felt strongly that no prepayment premium should be permitted in the case of long-term V-loans for facilities expansion, and that there was no indication of such an opinion.

There followed a discussion of the draft of letter during which the question was raised whether the Board should take a position specifically
with respect to the proposed loan to Reynolds Reduction Company or whether it should prescribe rules for general application to all long-term financing under the V-loan program.

Mr. Vest stated, in response to an inquiry by a member of the Board, that by executive order the Board was authorized to prescribe regulations governing the V-loan program and also to fix rates and fees, that any regulations issued by the Board would have to be rules for general application, and that, while it appeared that the Board might make an exception in an unusual case, he thought that ordinarily rates and fees prescribed by the Board should apply generally.

At the conclusion of the discussion, it was the consensus of the Board that it would be preferable to lay down rules for general application and that no exception should be granted in the case of the proposed loan to Reynolds Reduction Company.

Thereupon, it was agreed unanimously that the draft of letter presented by Mr. Noyes should be revised to take into account minor changes suggested at this meeting and submitted to the members of the Board for approval, and that following such approval, the letter should be sent to the Presidents of all Federal Reserve Banks, with copies to all of the guaranteeing agencies under the V-loan program.

Secretary's Note: The letter, having been revised as requested and having been approved thereafter by all of the members of the Board present at this meeting, was sent under date of September 22, 1952, in the following form:
"In connection with the V-loan Program, certain questions as to commitment fees and termination or prepayment fees have recently been raised with the Board.

The first question presented is whether or not the 1/2 of 1 per cent maximum commitment fee prescribed by the Board for V-loans operates to limit or prohibit the charging of a fee in connection with a guaranteed loan prior to the time the loan agreement and guarantee agreement are formally entered into. With respect to this question, it is intended that the commitment fee be chargeable only after the lender is committed on a firm basis through the execution of a loan agreement or other similar financing arrangement to make the loan. Accordingly, the Board has determined that any fee or charge in the nature of a commitment fee which would accrue prior to the execution of the loan agreement or other similar financing arrangement would operate to defeat the purpose of the prescribed maximum limit on commitment fees and is, therefore, not permissible under the schedule of rates and fees prescribed by the Board. In other words, in any case in which a financing institution imposes a commitment fee in connection with a guaranteed loan, such fee may not exceed 1/2 of 1 per cent per annum, based on the average daily unused balance of the maximum principal amount of the loan, and may not begin to accrue prior to the date on which the loan agreement or other similar financing arrangement is entered into.

Another question presented relates to the policy with respect to prepayment premiums in connection with long term V-loans made for the purpose of financing facilities expansion. In its letter of February 8, 1951, the Board prescribed a general rule that no premium or fee on account of prepayment may be charged the borrower by a financing institution in connection with V-loans made primarily for working capital purposes. With respect to V-loans made for the purpose of financing facilities expansion, the Board now prescribes a general rule that in such cases provision for a prepayment premium may be made, provided: (1) the loan has a maturity of five years or more; (2) such prepayment premium shall not be in excess of the rate of interest to be paid by the borrower pursuant to the terms of the loan; (3) provision is made for a graduated decrease in such prepayment premium as the loan approaches maturity; and (4) it is affirmatively provided that such prepayment premium shall not be applicable in the event
"the loan is refinanced by or consolidated with another loan which is made or guaranteed by the Government or any of its agencies.

"These actions have been taken by the Board after consultation with the guaranteeing agencies."

Before this meeting there had been placed in circulation among the members of the Board a draft of letter to the Honorable Preston Delano, Comptroller of the Currency, reading as follows:

"In accordance with the informal arrangement existing between your organization and ours with respect to the interchange of information relative to applications to establish branches, representatives of your office have notified us of the pendency of applications by the First National Bank, Portland, Oregon, to establish branches at Southeast 49th Avenue and Gladstone Street, and at Northeast Broadway between Ninth and Twelfth Avenues, Portland, Oregon.

"Neither this Board nor the Federal Reserve Bank of San Francisco is in possession of any facts, other than facts presumably in your possession, which would seem to have a bearing on the need for such additional banking facilities, the ability of the applicants to provide such facilities on a sound basis, or the extent to which other banks would be adversely affected by the additional competition involved, or which for any other reason we believe should be brought to your attention for consideration in formulating your decision on these applications.

"As you know, matters of this kind are ordinarily handled by telephone, but in this case we are also responding by letter because the bank involved is related to Transamerica Corporation, which, as you know, has been made the subject of the Board's Order in proceedings instituted under the Clayton Act. We appreciate that the authority and responsibility for making a decision on branch applications of national banks rests with your office; and this letter should not be regarded as indicating in any way the views or opinion of the Board of Governors as to the action which should be taken by you with respect to these applications."
Governor Vardaman had requested that the draft of letter be discussed at a meeting.

In the draft the word "facts", where it appeared for the first time in the second paragraph, was underscored, and Governor Vardaman stated that he would prefer that the underscoring be omitted since unintended implications might be drawn from its use.

Thereupon, the letter, with the underscoring deleted, was approved, Governor Evans not voting because he felt that some reference should be made in the letter to previous discussions between the Comptroller of the Currency and the Board on the matter of expansion of banks owned or controlled by Transamerica Corporation.

At this point all of the members of the staff except Messrs. Sherman and Kenyon withdrew from the meeting and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 17, 1952, were approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective September 28, 1952:

<table>
<thead>
<tr>
<th>Date of Memorandum</th>
<th>Name and Title</th>
<th>Salary Increase</th>
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<tbody>
<tr>
<td>8/19/52</td>
<td></td>
<td></td>
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<tr>
<td>Memoranda from Mr. Young, Director, Division of Research and Statistics</td>
<td></td>
<td></td>
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<tr>
<td>Irving Schweiger, Economist</td>
<td>$7,040</td>
<td>$7,240</td>
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<tr>
<td>Stanley J. Sigel, Economist</td>
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<td>$7,240</td>
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### Memoranda from Mr. Young, Director, Division of Research and Statistics

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<thead>
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<th>Name and Title</th>
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<th>Salary Increase To</th>
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<tr>
<td>8/19/52</td>
<td>Peter M. Cody, Economist</td>
<td>$5,310</td>
<td>$5,435</td>
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<td></td>
<td>A. Jane Moore, Economist</td>
<td>$4,705</td>
<td>$4,830</td>
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<tr>
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<td>Jennie L. Glass, Clerk</td>
<td>$3,350</td>
<td>$3,430</td>
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<tr>
<td>9/11/52</td>
<td>Reba C. Driver, Clerk</td>
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### Memoranda from Mr. Sloan, Director, Division of Examinations

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<th>Name and Title</th>
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<th>Salary Increase To</th>
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<tr>
<td>8/13/52</td>
<td>W. D. Dougal, Federal Reserve Examiner</td>
<td>$7,640</td>
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<tr>
<td>9/15/52</td>
<td>Evelyn C. Golibart, Stenographer</td>
<td>$3,350</td>
<td>$3,430</td>
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### Memorandum from Mr. Leonard, Director, Division of Bank Operations

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<th>Salary Increase To</th>
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<tbody>
<tr>
<td>9/17/52</td>
<td>Mary M. Durkan, Analyst</td>
<td>$5,060</td>
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### Memorandum from Mr. Bethea, Director, Division of Administrative Services

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<tr>
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<th>Salary Increase To</th>
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<tbody>
<tr>
<td>8/20/52</td>
<td>John Kakalec, Accountant</td>
<td>$4,455</td>
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### Memorandum from Mr. Boothe, Assistant Director, Division of Selective Credit Regulation

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<th>Name and Title</th>
<th>Salary Increase From</th>
<th>Salary Increase To</th>
</tr>
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<tbody>
<tr>
<td>8/26/52</td>
<td>J. J. Connell, Technical Assistant</td>
<td>$8,560</td>
<td>$8,760</td>
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Approved unanimously.
Memorandum dated September 2, 1952, from Mr. Sloan, Director, Division of Examinations, recommending that Helen B. Wolcott be transferred temporarily from the Board Members' Offices to the Division of Examinations, with no change in her basic salary of $5,500 per annum, effective September 2, 1952. The memorandum stated that it was anticipated that Miss Wolcott's assignment in the Division of Examinations would be of about five weeks' duration.

Approved unanimously.

Memorandum dated September 10, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Florence A. Norman as Cafeteria Helper in that Division, on a temporary basis for a period of three months, with basic salary at the rate of $2,420 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated September 15, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Rodmon C. Langley as Messenger in that Division, on a temporary basis for a period of two months, with basic salary at the rate of $2,552 per annum, effective as of the date upon which he enters upon the performance
9/18/52

-of his duties after having passed the usual physical examination and sub-
ject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of

Boston, reading as follows:

"In accordance with the request contained in your
telegram of September 10, 1952, the Board approves the
designation of T. Henry O'Keefe as a special assistant
examiner for the Federal Reserve Bank of Boston, for the
specific purpose of rendering assistance in the examina-
tions of Depositors Trust Company, Augusta, Maine, The
Merrill Trust Company, Bangor, Maine, The Hartford-
Connecticut Trust Company, Hartford, Connecticut, In-
dustrial Trust Company, Providence, Rhode Island, and
Rhode Island Hospital Trust Company, Providence, Rhode
Island."

Approved unanimously.

Letter to Mr. Lunding, Federal Reserve Agent, Federal Reserve Bank

of Chicago, reading as follows:

"In accordance with the request contained in Mr.
Meyer's letter of September 4, 1952, and as amended in
his letter of September 15, the Board of Governors ap-
proves the payment of salary to Mr. Clarence W. Kolz,
Alternate Assistant Federal Reserve Agent, at the rate
of $6,300 per annum, effective September 8, 1952."

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of

Chicago, reading as follows:

"In accordance with the request contained in your
letter of September 2, 1952, the Board approves the
"designation of the following individuals as special assistant examiners for the Federal Reserve Bank of Chicago for the specific purpose of rendering assistance in examinations of the Detroit Bank, Detroit, Michigan:

Banner, Loren W. Masonis, William J. Peters, Glave
Jones, Everett D. Mills, Walter Rentenbach, G.
Lazevnick, Joseph Neff, G.

"The Board also approves the designation of the following individuals as special assistant examiners for the Federal Reserve Bank of Chicago for the specific purpose of rendering assistance in examinations of the Commonwealth Bank, Detroit, Michigan:

Heika, K. O. Lazevnick, Joseph Rentenbach G.
Jones, Everett D. Peters, Glave Masonis, William J.

"Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners."

Approved unanimously.

Letter to Mr. Dearmont, Federal Reserve Agent, Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of September 11, 1952, the Board of Governors approves the payment of salary to Mr. Richard O. Kailey, Alternate Assistant Federal Reserve Agent, at the rate of $5,100 per annum, effective October 1, 1952."

Approved unanimously.

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

"In accordance with the request contained in your letter of September 2, 1952, the Board approves the designation of Eliot J. Swan, Assistant Vice President, as a special assistant examiner for the Federal Reserve Bank of San Francisco, for the specific purpose of rendering assistance in the examination of State member banks only, exclusive of the American Trust Company, San Francisco."
"Appropriate notations have been made in our records of the names to be deleted from your regular examining force, and from the list of special assistant examiners."

Approved unanimously.

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

"Reurtel September 10. Board approves designation of the following as special assistant examiners for the Federal Reserve Bank of San Francisco:

J. V. Dennis  
P. T. Schwedler  
E. W. Anderson  
R. A. Haskell  
C. H. Force  
W. G. Johnston"

Approved unanimously.

Letter to the Board of Directors, The Marine Trust Company of Western New York, Buffalo, New York, reading as follows:

"The Board of Governors of the Federal Reserve System, pursuant to authority contained in section 19(c) of the Federal Deposit Insurance Act, consents to the absorption by The Marine Trust Company of Western New York, Buffalo, New York, of the Bank of Hamburg, Hamburg, New York, and approves the establishment and operation of a branch by The Marine Trust Company of Western New York in Hamburg, New York, provided (1) such absorption is effected in accordance with the plan submitted, (2) the banking premises acquired by the trust company are not carried on its books at a value in excess of $50,000, and (3) formal approval is obtained from the appropriate State authorities.

"In its consideration of this matter, the Board has not made and should not be deemed to have made any decision as to the application of the Clayton Antitrust Act or any related statutes to Marine Midland Corporation or the banks in the Marine Midland group. The Board understands that additional transactions are in contemplation which may make it necessary for banks in the Marine Midland group to apply to the Board for
"permission to establish branches or to merge with or assume the liabilities of other institutions or for the Marine Midland Corporation to apply to the Board for voting permits. Accordingly, in view of the number and size of the banking offices in the Marine Midland Group in relation to the other banking institutions in the areas served by that group, the Board, through the Federal Reserve Bank of New York, is making a careful survey of all facts and circumstances that may have a bearing on any actions which the Board should take in such cases. Pending the completion of such a survey, which, of course, will require some time, and consideration by the Board of its results, the Board will not look with favor on any such cases that may be submitted to it involving the Marine Midland group."

Approved, for transmittal through the Federal Reserve Bank of New York, Governor Evans not voting.

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

"Reference is made to your letter of March 12, 1952, and the enclosed review of the 1951 annual report to the Board of New Hampshire Bankshares, Inc., Nashua, New Hampshire, wherein attention was drawn to the fact that the holding company affiliate's net earnings for the year 1951 exceeded six per cent of the book value of its own shares outstanding at December 31, 1951, by $139.14, and that the only readily marketable asset held was $51.08 of cash, thereby leaving a deficiency of $88.06 in readily marketable assets required by Section 5144 R.S. at December 31, 1951.

"Comments in the review were also noted to the effect that although the deficiency in readily marketable assets was insignificant, the matter was drawn to the attention of the Executive Vice President of the holding company affiliate for consideration in view of the possibility that earnings may continue to increase; and that the holding company affiliate is a personal holding company and subject to such high taxes on undistributed earnings that it will not be able to acquire the reserve of readily marketable assets through the retention of earnings."
"Because of the tax burden, the holding company affiliate pays dividends in the approximate amount of its net earnings. Consequently, the book value of its own shares outstanding does not increase through the retention of earnings. Therefore, it is possible that in 1952 and subsequent years net earnings will continue to exceed six per cent of the book value of the holding company affiliate's own shares outstanding.

"A reserve of readily marketable assets could be established by the sale of additional stock of the corporation or by contributions to the corporation's surplus by shareholders. However, it is possible that the readily marketable assets can be acquired through the retention of earnings, because it appears that the Internal Revenue Code and the regulations thereunder provide for an allowance of a tax credit for that portion of earnings or profits which the Board certifies to the Commissioner of Internal Revenue as having been devoted by such holding company affiliate during the taxable year to the acquisition of readily marketable assets in compliance with Section 5144 R.S. The holding company affiliate may wish to consider this possible tax relief in connection with the acquisition of readily marketable assets.

"Because of the violation of Section 5144 R.S. in 1951, and the aforementioned considerations, please advise the holding company affiliate that the Board will expect it to comply with the statute and acquire the proper amount of readily marketable assets in this and future years, and to correct the deficiency for the year 1951 by December 31, 1952."

Approved unanimously.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

"The annual report to the Board for 1951 filed by the Trustees, First National Bank of Louisville, Louisville, Kentucky, shows that the holding company affiliate had net earnings for the year of $415,503.00. The book value of the Trustees Participation Certificates outstanding at December 31, 1951, was $6,688,236.15. Since the net earnings for 1951 exceeded six per cent of the book value of the Trustees Certificates outstanding by $14,208.83, the holding company affiliate was required by subsection (c) of Section 5144 R.S. to establish and maintain a reserve of readily marketable assets in the amount of $14,208.83."
"At December 31, 1951, the only asset held by the holding company affiliate, other than its investments in subsidiary banks and companies, was $2,580.72 of cash.

"An investment in a wholly-owned subsidiary or a subsidiary wholly owned except for directors' shares, has not been regarded by the Board in other cases as meeting the requirement of a readily marketable asset. The fact that the assets of such a subsidiary or subsidiaries are predominately of a readily marketable character would not appear to justify a different conclusion. Moreover, ownership of readily marketable assets by a subsidiary of a holding company affiliate would not amount to the ownership of such assets by the holding company affiliate as contemplated by the statute.

"It, therefore, is suggested that you advise the holding company affiliate of these views in order that it may take the necessary steps to establish and maintain the reserve of readily marketable assets required by Section 5144 R. S."

Approved unanimously.

Letter to Mr. Gilbert, President, Federal Reserve Bank of Dallas,

reading as follows:

"This refers to your letter of August 19, 1952, by which you have requested the reconsideration of the application for full fiduciary powers originally submitted on behalf of The Waggoner National Bank of Vernon, Vernon, Texas, on June 12, 1952, and disapproved by action of the Board on August 8, 1952.

"In your letter of August 19, you stress the favorable experience of the national bank, the high quality of its management and the conservatism of its operating policies, and express the feeling of your Executive Committee that these factors and related favorable circumstances more than compensate for the somewhat unfavorable capital position of the bank in considerations relating to a grant of the fiduciary authority which has been requested.

"These favorable factors and circumstances, originally cited in the application and re-emphasized in your recent letter, were carefully weighed in relation to the capital position of the applicant during consideration of its request for authority to exercise trust powers. Notwithstanding the
"demonstrated capability of the management of the bank and the conservatism of its operating policies, it was the considered view of the Board at that time that an extension of its corporate authority should not be authorized while the capital position in relation to existing corporate liabilities and responsibilities was such as to prompt supervisory action directed toward improvement in such capital position. Particularly did such an authorization seem inappropriate in recognition of the unusual nature of responsibilities and incalculable risks accompanying fiduciary undertakings heightened in the subject instance by the inexperience of the directors and officers of the bank in that specialized field.

"The subject application, at your request, has been carefully reconsidered in the light of all the facts and circumstances presented, but the Board can come to no conclusion other than to reaffirm the position taken in its letter to you dated August 8."

Approved unanimously.

Letter to Mr. McCormick, Chairman, Federal Reserve Bank of Richmond, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Richmond, made as of June 13, 1952, 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 Leach.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated."

Approved unanimously.

Letter to Mr. Shepard, Chairman, Federal Reserve Bank of Minneapolis, reading as follows:

"It has been noted from the report of examination of the Federal Reserve Bank of Minneapolis as of April 18, 1952, that
"the management reported one case of a possible violation of the criminal provisions of the banking laws of the United States involving an employee of the Federal Reserve Bank.

In this case it appears that the employee implicated, who had responsibility for reviewing on behalf of the Reserve Bank the monthly statements of accounts payable for food used in the cafeteria, had contrived to have included in the payments made by the cafeteria concessionaire the cost of weekly purchases of food for his own use, commencing in March 1949 and continuing through October 1951 and involving the aggregate amount of $9117.59. Further, it appears that the payments thus improperly made were absorbed by the Reserve Bank inasmuch as it underwrites cafeteria operating losses.

"From the information presently available to the Board it is not clear whether, in the opinion of the Reserve Bank's management, this case involved a violation of the banking laws and, if so, whether there is a probability that the violation constituted a felony. The Board would like to be fully informed regarding the matter.

"In this connection, attention is directed to the procedure set forth in the Board's letter of August 19, 1948 (F.R.I.S. #6503) to be followed in cases wherein it appears probable that a violation of the banking laws constituting a felony may have occurred."

Approved unanimously.

Assistant Secretary.