

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 9, 1952. The Board met in the Board Room at 2:00 p.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of
Examinations

Governor Robertson referred to a telegram of December 5, 1952, from Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to our letter of November 14, 1952, and Board's letter of November 26, 1952, regarding application of the Vienna Trust Company, Vienna, Virginia, for permission to establish and operate a branch in McLean, Virginia. A contest has developed between the Vienna Trust Company and the Bank of Annandale, Annandale, Virginia, a nonmember insured bank, for State authority to establish a branch in McLean. The Bank of Annandale has signified its intention to appeal from the order of the State Corporation Commission of Virginia denying its application and granting the application of the Vienna Trust Company to establish a McLean Branch. State Corporation Commission has ordered that the proceeding be docketed and set for hearing on December 12, 1952, for the purpose of making up appeal record and is permitting both banks to submit evidence and be heard. We have been requested by the Vienna Trust Company to have a member of our examining staff available to testify in this proceeding. Conference with president and counsel of the member bank indicates that our testimony might include confirmation of Board's approval to establish branch, statement as to nature and scope of investigation by Reserve Bank and information developed therefrom, and conclusions and recommendations of the Reserve Bank. Management of the Vienna Trust Company has indicated that a member of our examining staff may

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"be subpoenaed if not willing to testify on a voluntary basis. The request of the member bank appears reasonable, and we are willing to appear and testify at the hearing if Board approves."

Governor Robertson said that the matter had been discussed with Mr. Vest and Mr. Heflin, Counsel of the Federal Reserve Bank of Richmond, and that he would recommend advising the Reserve Bank that the Board would have no objection to a member of the Bank's staff, other than the examiner who conducted the investigation in connection with the branch application of the Vienna Trust Company, appearing before the State Corporation Commission for the purpose of presenting a copy of the Board's letter of November 4, 1952, which sets forth the matters to be covered by a Reserve Bank in presenting a branch application by a State member bank for the Board's consideration, and a copy of the Board's letter of November 26, 1952, to the board of directors of the Vienna Trust Company approving the establishment of a branch at McLean, Virginia, subject to certain stated conditions. Governor Robertson also recommended advising the Reserve Bank that its representative should disclose no further information and should decline to answer any questions if the response would contravene section 8 of the Board's Rules of Organization, which provides that the Board will not disclose information relating to investigations of a particular bank or proceedings in connection with the granting of permission for a State member bank to establish a branch.

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Mr. Vest stated that he concurred in the recommendations of Governor Robertson.

Governor Vardaman said that in his opinion it would be unwise for a Reserve Bank to have a member of its staff appear voluntarily at a hearing of this kind at the request of a member bank, that he thought it would be preferable to await the issuance of a subpoena, but that in view of Governor Robertson's recommendation, he would be willing to have a letter to the Richmond Reserve Bank go forward on a basis satisfactory to Governor Robertson and Mr. Vest.

Thereupon, it was agreed unanimously that a letter to Mr. Leach should be prepared along the lines suggested and that it should be transmitted to Mr. Leach in a form approved by Governor Robertson.

Secretary's Note: Pursuant to the above action, the following letter, having been approved by Governor Robertson, was sent to Mr. Leach on December 10, 1952:

"This refers to your telegram of December 5, 1952, with reference to the request of the Vienna Trust Company, Vienna, Virginia, that a member of your staff testify in the proceeding set for December 12, 1952, before the Virginia State Corporation Commission regarding the Commission's orders with respect to the establishment of proposed branches at McLean, Virginia.

"There is no objection to a member of your staff (other than the examiner who made the investigation in connection with the branch application of the Vienna Trust Company) presenting to the Commission at the hearing on December 12 (1) a copy of the Board's letter of November 4, 1952, in which there are set forth the matters to be covered by a Federal

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"Reserve Bank in presenting for the Board's consideration an application of a State member bank for a branch, and (2) a copy of the Board's letter of November 26, 1952, addressed to the board of directors of the Vienna Trust Company and approving the establishment of a branch at McLean subject to certain conditions therein stated. However, the regulations of the Board as contained in its 'Rules of Organization' (Part 261 of Title 12 of the Code of Federal Regulations) provide in section 8 thereof (section 261.3 of the Code) that for the reasons and good cause there indicated the Board will not disclose information relating to investigations of a particular bank or proceedings in connection with the granting of permission for a bank to establish a branch. No information should be disclosed in the forthcoming hearing in contravention of the principles or provisions of the Board's Rules, and the Board does not consent to or authorize the disclosure of any information in this matter except that specifically listed above. If, during the hearing, questions should be asked of the Federal Reserve Bank witness the response to which might contravene the Board's Rules, the witness should respectfully decline to disclose the information in question on the basis of the Rules of the Board which were issued pursuant to the provisions of the Administrative Procedure Act."

Reference was made to receipt by the Board of an application for postponement of the hearing, pursuant to section 30 of the Banking Act of 1933, which had been set by the Board for December 22, 1952, at the Federal Reserve Bank of St. Louis, to permit certain named directors and officers of the City National Bank of Fort Smith, Fort Smith, Arkansas, to appear and show cause why they should not be removed from office. The application, which was signed by all of the six named directors and officers except director Hudson Cooper, requested a postponement of the hearing for 30 days and presented several reasons for such request, including the state-

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ment that Mr. Eugene R. Warren, of the firm of Bailey & Warren, Little Rock, Arkansas, whom the directors and officers desired to retain to represent them as counsel at the hearing, would not be able to serve in that capacity until after January 20, 1953, for reasons set forth in an attached letter of November 28, 1952, from Mr. Warren to Mr. H. S. Nakdimen, President of the City National Bank. The application also stated that a sale of the bank to outside parties was being negotiated, that the sale might be consummated by late January, and that every effort was being made to dispose of the bank's stock.

Governor Robertson stated that in view of the fact that negotiations for the sale of the stock of the bank were in process, he would recommend that the Board postpone the hearing until January 26, 1953. He also recommended that the Board appoint Mr. James A. Purcell, a hearing examiner for the Federal Trade Corporation, to conduct the hearing, the negotiations for Mr. Purcell's services which were authorized by the Board on November 17, 1952, having been completed with the Federal Trade Commission and the Civil Service Commission.

Thereupon, the following orders were approved by unanimous vote:

"UNITED STATES OF AMERICA
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

IN THE MATTER OF
Hudson Cooper, G. L. Grant, Arthur F. Hoge,
and Gus Krone, Directors, and
H. S. Nakdimen, President and Director, and

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"W. B. Fitch, Vice President, Cashier and Director
of CITY NATIONAL BANK OF FORT SMITH,
Fort Smith, Arkansas.

ORDER POSTPONING DATE OF HEARING

After consideration of the application filed on
December 9, 1952 with the Board of Governors by the re-
spondents in the above entitled matter requesting a post-
ponement of the date of the hearing in this matter as
heretofore fixed by the Board's Notice of November 17,
1952,

IT IS HEREBY ORDERED, That the date of the hear-
ing in the above entitled matter heretofore fixed as Dec-
ember 22, 1952, be postponed and that said hearing be held
on January 26, 1953, at 10 o'clock A. M. at the Federal Re-
serve Bank of St. Louis, St. Louis, Missouri, before a
duly qualified trial examiner appointed by the Board of
Governors for the purpose.

By the Board.

(signed) S. R. Carpenter,
Secretary.

(SEAL)

December 9, 1952"

"UNITED STATES OF AMERICA

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

IN THE MATTER OF

Hudson Cooper, G. L. Grant, Arthur F. Hoge,
and Gus Krone, Directors, and
H. S. Nakdimen, President and Director, and
W. B. Fitch, Vice President, Cashier and Director
of CITY NATIONAL BANK OF FORT SMITH,
Fort Smith, Arkansas

ORDER APPOINTING TRIAL EXAMINER

IT IS HEREBY ORDERED that the hearing heretofore ordered
to be held in the above entitled proceeding shall be held before
James A. Purcell, a duly qualified trial examiner, who is hereby
authorized and directed to act as trial examiner in such proceed-
ing.

By the Board.

(signed) S. R. Carpenter,
Secretary.

(SEAL)

December 9, 1952"

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At this point Messrs. Williams, President, and Hill, Vice President, of the Federal Reserve Bank of Philadelphia, entered the room.

Chairman Martin stated to Mr. Williams that, as indicated in an earlier telephone conversation, the Board had decided, after preliminary consideration of the inquiry by Land Title Bank and Trust Company, of Philadelphia, concerning membership in the System, that it would like to have the benefit of his views and those of Mr. Hill regarding the matter before reaching a decision.

Mr. Williams then made a statement in which he referred to the desire of Land Title Bank and Trust Company to become a member bank and continue to conduct its title insurance business and stated that in his opinion the trust company would not accept a condition of membership under which it would be required to divest itself of the title business. He pointed out that the trust company was one of a group of 11 nonmember banking institutions in the Third Federal Reserve District conducting title operations, either directly or indirectly through a controlled subsidiary, and said that Mr. Hill had prepared a table giving certain information about these institutions in the thought that it would assist the Board in appraising the total situation and in considering what its position might be if it should act favorably on an application for membership by Land Title Bank and Trust Company. Copies of the tabulation were distributed to the members of the Board.

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Mr. Williams then called upon Mr. Hill, who made a statement which included the following comments:

Prior to 1933 the Board followed a policy of admitting banks to membership which conducted title operations provided they were otherwise satisfactory and acceptable. Since that time some of the institutions have lost their title powers under Pennsylvania law because of failure to exercise them for one year, and the number of institutions continuing to conduct title operations has been further reduced through mergers and other circumstances. At present there are only three member banks admitted prior to 1933 which continue to do a title business. Three other member banks are interested in the title business through subsidiaries in which they continue to hold stock.

A check with State banking authorities has not disclosed any instances where losses of consequence have resulted from title operations. As President Madeira, of Land Title Bank and Trust Company, has pointed out, the trust companies are in a good position to control their risks. We have watched carefully the mortgage loan policies of banks doing a title business because such banks might be induced to lower their mortgage standards but there does not seem to have been any serious trouble from that source.

In discussing this matter, I would not want the Board to think that I was inclined to relax the standards of System membership in order to admit any bank. If it should be found from experience and review of title operations that there were serious dangers involved in the exercise of title powers, I would be the last person to recommend or suggest favorable treatment. However, I feel that we want as many good banks as possible to be members of the System, and where an institution's primary activity is commercial banking and the title business is subsidiary, it appears to me that we should give that bank sympathetic consideration. It should also be borne in mind that the bank doing a title business is a vanishing type of institution.

We have reviewed carefully the latest report of examination of Land Title Bank and Trust Company by the Federal Deposit Insurance Corporation. It shows the trust company is in good condition, with adequate capital and few assets classified or criticized. Its loan volume is rather high proportionately and if the matter of membership should go further,

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I would propose to talk to the bank's management about its lending policy to see whether it called for retrenchment. In 1935, when the trust company previously inquired about membership, its future was so uncertain that I do not know whether we could have recommended to the Board that the bank be admitted had it formally applied for membership. However, Mr. Madeira, who joined the institution about that time, has been credited with doing a remarkable job in building up the capital accounts, which now total \$12.5 million, giving credit for valuation reserves for bad debts, and in bringing about other improvements. The bank building has been sold and the bank now operates in leased quarters. The title operations account for about 25 per cent of total net earnings. In conversations with officers of the trust company, I have been reluctant to suggest a divorcement of the title business which would involve a reduction of the bank's capital because of the large loan volume.

The trust company is contemplating a merger with a somewhat larger, well-managed, sound national bank. If it does not become a member and the merger is consummated, this means that the resulting institution would be outside the System.

With regard to the other 10 nonmember institutions doing a title business, we have talked to some of them and there is no present indication of interest in System membership regardless of the Board's attitude toward title powers. This lack of interest may be due, at least in part, to the Pennsylvania State reserve requirements, which are so lenient that nonmember banks enjoy a substantial advantage in that respect. For that reason the "cost of membership" to Land Title Bank and Trust Company might be estimated at as much as \$25,000 annually. Incidentally, there are indications of a trend on the part of national banks in Pennsylvania to convert to State nonmember banks because of the abovementioned situation.

All this influences my thinking to some extent although not to the extent of encouraging banks to come into the System regardless of their condition. While I would like to see all banks in good condition within the System, since that widens the System's influence, I have never recommended any bank which was not sound at the time or which I did not think could be made sound within a reasonably short time.

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Governor Robertson then inquired of Mr. Hill how far he would go in permitting banks to engage in nonbanking functions, and Mr. Hill responded that he would consider each case on the merits of the particular activity, that in the case of the title business there was a long and favorable record of experience, and that he felt that any bank which had been doing this business over a long period and was otherwise acceptable should be admitted to membership.

In reply to a question by Governor Robertson whether this could be distinguished from a bank's operating a business such as a grocery business, assuming it had the authority, Mr. Hill said that while the grocery business was in no sense a type of business having any relation to commercial banking, the title business, although not a banking function, bore some reasonable relationship, especially if viewed historically, because in Pennsylvania prior to 1933 trust companies were incorporated under an act of 1874 which gave them title powers. If approached on that basis, there seemed to him to be a logical reason for differentiation between the title business and other nonbanking businesses.

Governor Robertson then inquired whether favorable action by the Board in the case of Land Title Bank and Trust Company would not be inconsistent with its position in connection with proposed bank holding company legislation, that is, that such companies should divest themselves of nonbanking interests. Mr. Hill first commented that the Third District

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did not have to deal with the holding company problem. He went on to say, however, that in view of the way the title business had developed historically in Pennsylvania and the favorable experience with this activity, he believed that a broad and constructive approach to the problem, thinking particularly in terms of building up the System's area of influence, would be to admit institutions otherwise desirable despite their title operations.

Governor Robertson also asked whether there were people in the Reserve Bank with enough knowledge of the title business so that the Bank could exercise supervisory influence over member banks conducting title operations, and Mr. Hill replied to the effect that although the Reserve Bank had no experts in that field, it had had contacts with institutions doing that business for many years and that with reasonably careful checking the possibility of losses in a well-managed institution was quite small, especially since the institution's liability is extinguished when a title is transferred unless the purchaser insures or unless a question is raised at the time of transfer.

Additional comments by Mr. Williams were along the lines that Land Title Bank and Trust Company was a clean institution, that its admission to membership might help the situation in the Philadelphia area generally, especially if the contemplated merger with the national bank went through, that the Reserve Bank had had close and cordial contacts

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with the trust company, and that the trust company was expressing an interest in membership despite the stricter reserve requirements to which it would be subject.

At this point Messrs. Williams, Hill, and Sloan withdrew from the meeting and Messrs. Gidney, President of the Federal Reserve Bank of Cleveland, and Allen, Director of the Division of Personnel Administration, entered the room.

Chairman Martin referred to the proposed appointment of Mr. Fulton, now Vice President in charge of the Cincinnati Branch, as First Vice President of the Cleveland Reserve Bank, effective January 1, 1953, for the unexpired portion of the term ending February 29, 1956, to succeed Mr. Fletcher, who is retiring at the end of this calendar year. He stated that in accordance with the decision of the Board at the meeting on November 6, 1952, to defer action pending discussion of the appointment with Mr. Gidney and with Mr. Virden, Deputy Chairman of the Cleveland Bank, who will succeed Mr. Brainard as Chairman and Federal Reserve Agent on January 1, 1953, he talked to Mr. Virden and also to Mr. Brainard. He then asked Mr. Gidney for his views regarding Mr. Fulton and particularly as to Mr. Fulton's ability to assume the presidency of the Cleveland Bank if that position should be vacated.

Mr. Gidney stated that Mr. Fulton had made an outstanding record at the Cincinnati Branch, especially in the field of bank and public relations,

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that his appointment as First Vice President was endorsed by a number of prominent bankers and businessmen, including directors of the Cincinnati Branch, that apparently he would do a better job in bank and public relations work than Mr. Fletcher, that he appeared to be the strongest available candidate for the position, that he would get along well with other members of the Bank's staff, and that the experience which Mr. Fulton acquired in his previous position as officer in charge of the bank examination function should prove valuable. With regard to Mr. Fulton's qualifications for the presidency of the Reserve Bank, Mr. Gidney expressed some doubt that Mr. Fulton would be ready in three years, as one of the Cincinnati Branch directors had suggested, but at the same time he felt that it was a possibility in view of his progress at Cincinnati.

Governor Vardaman commented that if Mr. Fulton's appointment were approved, it should be clearly understood that there was no obligation on the part of the Reserve Bank's board of directors to raise him to the presidency of the Bank at any time. Mr. Gidney said that his discussions with Mr. Fulton were on that basis and that there would be no misunderstanding.

At the request of Governor Robertson, Mr. Gidney discussed certain other officers of the Cleveland Bank whom he considered outstanding and capable of further development. Those mentioned were Mr. Blair, Vice President, General Counsel, and Secretary, who had been selected to

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succeed Mr. Fulton at Cincinnati if the latter were appointed First Vice President; Mr. Thompson, Vice President; and Mr. Stetzelberger, also Vice President.

Mr. Gidney then referred to several junior officers of the Reserve Bank who might be promoted at an early date and the reasons for making those promotions. He pointed out that the prospective transfer of Mr. Blair to Cincinnati raised the question of who might be available to perform the Bank's legal work, and said that after discussions with Mr. Vest and others he felt that a young man who had been assistant to Mr. Blair and who showed promise of development might be able to carry on, with somewhat more assistance from outside counsel than Mr. Blair has needed, and ultimately become General Counsel. He noted in this connection that the volume of legal work had declined since the suspension of the consumer credit and real estate credit regulations.

Governor Robertson suggested that it might be helpful to the Bank and to the man in question if he could spend two or three months in the Board's Legal Division, and Mr. Gidney indicated that he thought well of that suggestion.

Mr. Gidney then inquired whether it would be agreeable to the Board if announcements of the designation of Mr. Virden as Chairman and Federal Reserve Agent at the Cleveland Bank for 1953 and of the appointment of Mr. Swensrud as a Class C director for the three-year term beginning January 1, 1953, were made at a dinner to be given tomorrow evening

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in honor of Mr. Brainard.

It was understood that there would be no objection to such announcements.

Mr. Gidney said there was a possibility that the directors of the Cleveland Reserve Bank would want to vote in favor of an increase in the discount rate at their next meeting but that he would attempt to dissuade them from taking such action.

Messrs. Gidney and Allen then withdrew from the meeting.

Reference was made to a memorandum from Mr. Allen dated December 2, 1952, copies of which had been sent to the members of the Board before this meeting, recommending that John Calhoun Baker, President of Ohio University, Athens, Ohio, be appointed a director of the Cincinnati Branch for the unexpired portion of the term ending December 31, 1954, to fill the vacancy resulting from the death of Ernest H. Hahne.

Following discussion, it was agreed unanimously that a telegram should be sent to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, requesting that he ascertain and advise the Board whether Mr. Baker would accept the appointment if tendered.

At this point Mr. Johns, President of the Federal Reserve Bank of St. Louis, entered the room.

Mr. Johns referred to the appointment of Mr. Attebery as First Vice President of the St. Louis Reserve Bank for the five-year term

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beginning March 1, 1951, which appointment was made with the understanding that Mr. Attebery, who would reach age 65 in the fall of 1952, would resign not later than December 31, 1952. He said that until recently Mr. Attebery had given every indication of complying with that understanding but that about two months ago he raised the question of continuing in service and, after exploring the matter with the Bank's executive committee, he (Mr. Johns) advised Mr. Attebery that it would be inadvisable for him to press the matter and Mr. Attebery stated that he had just thought it might be possible. Thereafter, on November 19, according to Mr. Johns, Mr. Attebery addressed a letter to Chairman Dearmont, with a copy to Mr. Johns, recalling that in a previous letter to Mr. Dearmont in 1951 regarding his appointment, he had pointed out that he would reach age 65 in 1952 and that he still had in mind retiring at that time although he would not object to staying longer if he were in good health. His current letter stated that, after a visit to his doctor, who found him in good health, he did not plan to tender his resignation.

Mr. Johns said that Mr. Attebery talked to him about the letter to Mr. Dearmont and denied the purport of two previous conversations with him which indicated his awareness of the understanding regarding his appointment, that Mr. Dearmont, before replying, talked to Mr. Attebery on the basis that it would be unfortunate in the light of his record with the System for him to persist, that Mr. Attebery refused to withdraw the letter, and that

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Mr. Dearmont then wrote to Mr. Attebery citing the clear and unequivocal understanding in 1951, together with the fact that his appointment was made with that understanding, and stating his belief that Mr. Attebery had already resigned and that he expected to recommend to Mr. Johns that Mr. Attebery's current vacation be extended to the end of the calendar year 1952. Mr. Johns added that he had heard from Mr. Dearmont and Mr. Davis, former President of the St. Louis Bank, that the earlier letter to Mr. Dearmont to which Mr. Attebery referred was written before, not after, his appointment.

Mr. Johns stated that the Bank's executive committee last week took formal action placing Mr. Attebery on leave through December 31, 1952, and instructing him (Mr. Johns) to relieve Mr. Attebery of his duties and responsibilities, that he did so, that Mr. Attebery would have been due back from vacation yesterday, but that Mr. Dearmont had informed him by telephone that Mr. Attebery came to the Bank only for the purpose of clearing out his desk.

Mr. Johns said he learned from the office of the Retirement System that several months ago Mr. Attebery had filed papers requesting that he be retained in active service through December 31 of this year, and that on or about December 1, Mr. Attebery filed a request for retirement from active service on December 31 and for his retirement allowance to become effective January 1, 1953, which request was accompanied by a letter in

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which he said that notwithstanding the language of the enclosed form, he wished to notify the Retirement System that he would not resign on December 31, 1952.

After discussing the matter with Mr. Vest, Mr. Johns said, he had decided to suggest to Mr. Dearmont that the Reserve Bank directors adopt a resolution dismissing Mr. Attebery from office as of December 31, 1952, under the authority of paragraph 4 of section 4 of the Federal Reserve Act.

Mr. Vest commented on the language of the statute authorizing the directors to dismiss officers and employees at pleasure, stating that it seemed clear that the provision applied to first vice presidents as well as other officers and employees and that the power of the directors to dismiss at pleasure, which existed since the beginning of the Federal Reserve System, was not changed by the language of the Banking Act of 1935 with respect to the appointment of presidents and first vice presidents for five-year terms.

There was discussion whether the Board should take any action to remove Mr. Attebery or any other action and Mr. Vest stated reasons why he believed that would be unnecessary. In response to a question by Chairman Martin, Mr. Vest said that he felt the course of action suggested by Mr. Johns was appropriate and that the matter was one which should be handled, at least initially, at the Reserve Bank level.

Following reference to the Board's files and minutes relating to

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the appointment of Mr. Attebery, it was understood that Mr. Johns would send the Board a copy of any resolution adopted by the Reserve Bank directors, that the Reserve Bank would recommend to the Board the appointment of a successor to Mr. Attebery and the payment of a salary to that person beginning January 1, 1953, and that Mr. Johns would inform the Board if there were further developments or if it appeared there was anything the Board might do to strengthen the position of the Reserve Bank.

At this point Mr. Johns withdrew from the meeting and Messrs. Marget, Director, and Dembitz, Assistant Director, Division of International Finance, entered the room.

Before this meeting there had been circulated to the available members of the Board for their information prior to consideration at this meeting a draft of telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, prepared in response to Mr. Knoke's telegram of December 4, 1952, requesting the Board's approval of a loan or loans to Banco Central de Bolivia not to exceed \$9,500,000 in the aggregate at any one time outstanding, such loan or loans to be made up to 98 per cent of the value of gold bars set aside in the vaults of the New York Reserve Bank under pledge to the Reserve Bank and to be made on certain stated terms and conditions.

The draft of telegram was accompanied by a memorandum from Mr. Marget dated December 5, 1952, recommending approval of the credit on the terms

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stated in Mr. Knoke's telegram, stating that the Department of State had been consulted and expressed no objection to the operation, and discussing four problems related to the loan, which the memorandum stated did not appear to be such as to preclude the extension of the credit. These problems concerned the authority of Banco Central de Bolivia to pledge more than \$1.3 million of gold as security unless certain changes were approved in the Bolivian statutes, Banco Central already having pledged \$3.7 million of gold as collateral against loans from commercial banks in New York; a request by Bolivia for a drawing on the International Monetary Fund in the amount of \$2.5 million, equivalent to its gold contribution, and an inquiry regarding an additional drawing from the Fund of \$9.5 million; the nationalization by Bolivia of foreign-owned tin mines in October 1952; and the effect of the nationalization upon the Bolivian balance of payments position and, therefore, its ability to repay the loan without selling the gold collateral.

At Chairman Martin's request, Mr. Marget commented on the problems involved, stating that advances under the loan in excess of \$1.25 million would be subject to new legislation being passed by the Bolivian Parliament, should that be found necessary, which would remove the present restriction of \$5 million on the total amount of gold that Banco Central de Bolivia may pledge to banking institutions and give authority to pledge additional

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amounts of gold as needed; that he felt the International Monetary Fund should not be engaged in making loans on gold; and that the contemplated arrangement, under which Bolivia would draw from the Fund only to the extent of its gold contribution and the remainder of the \$12 million which it originally inquired about at the Fund would be obtained through a Federal Reserve gold loan, seemed preferable. With regard to the nationalization of the tin mines, Mr. Marget said that while there might be an initial reaction against lending to a country taking such a course of action, especially where the action was taken by a government which came into power through revolution, the United States Government had recognized the new Bolivian Government and the State Department, upon inquiry by the Board's staff, indicated that it did not regard nationalization of the mines as barring the extension of credit to Bolivia and that any credits should be examined on their own merits. He said that Bolivia's current balance of payments position was satisfactory, that it was likely to remain so for at least three to six months, that longer-run prospects were somewhat cloudy because it was hard to predict what effect the nationalization of the mines would have on tin ore shipments, but that it seemed safe to say that for up to six months, at least, the Bolivians would be in a position to handle repayment of the loan. Mr. Marget also stated that the matter had been checked carefully with Mr. Southard, United States Executive Director of the International Monetary Fund.

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Governor Robertson inquired whether the loan would be renewed automatically at the end of three months. Mr. Marget responded that as a usual practice loans were made for three months with the understanding that there would be no serious objection to three-month renewals up to one year but in this case the New York Reserve Bank stated that it did not intend to indicate to Banco Central de Bolivia any possibility of a renewal. He said this raised the question whether the Federal Reserve should be prepared to tell the Bolivians on the due date that they must repay the loan, if necessary by selling the gold collateral.

In response to a further question by Governor Robertson, Mr. Marget said that the Federal Reserve would not be precluded from requiring repayment if it so desired despite whatever views the State Department might express, although it should be borne in mind that the Bolivians might then make a request of the International Monetary Fund for a drawing.

Chairman Martin asked if it was correct to say that the New York Reserve Bank wanted to make the loan but at the same time wanted to emphasize the three-month maturity because of the tin situation, and Mr. Marget stated that that was correct.

Governor Vardaman then stated that he had not yet had an opportunity to study the matter and therefore could not vote on it at this time.

Chairman Martin suggested that, in the circumstances, a decision be deferred pending further discussion at the meeting of the Board tomorrow.

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At this point Governor Vardaman withdrew from the meeting.

Mr. Marget discussed briefly the procedure followed in the consideration of requests for Federal Reserve loans on gold, stating that he was not altogether satisfied with the current procedure from the standpoint of the Board's responsibilities and that it might be desirable to discuss the matter with the Federal Reserve Bank of New York in order to clarify the relations between the Board and the Bank.

Chairman Martin said that the Board would give consideration to the matter.

At this point Messrs. Vest, Marget, and Dembitz withdrew and the following additional action was taken by the Board:

Letter to Mr. Brainard, Chairman, Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors has received your letter of November 20, 1952, stating that the report of examination of the Federal Reserve Bank of Cleveland, made as of September 22, 1952, by the Board's examiners, has been reviewed by your Audit Review Committee and has been circulated to every member of the Board of Directors.

"The expenditures listed on page 18 of the report of examination have been noted, and it is understood that the matter was discussed with you by Chief Federal Reserve Examiner Lang. It is the Board's view that expenditures of this kind should be very carefully watched by the directors and officers of the Federal Reserve Banks and that they

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"should be kept to a reasonable minimum in accordance with the position set forth in the Board's letter of January 16, 1945 (S-826). It will be appreciated if you will bring the contents of that letter to the attention of the directors and arrange to have future proposals for such expenditures considered on the basis therein set forth."

Approved unanimously.



Secretary