

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 6, 1948. The Board met in the Board Room at 11:10 a.m.

PRESENT: Mr. Eccles, Chairman pro tem
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approved the establishment without change by the Federal Reserve Bank of San Francisco on February 3, by the Federal Reserve Bank of St. Louis on February 4, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas on February 5, 1948, of the rates of discount and purchase in their existing schedule.

Approved unanimously.

Reference was made to a memorandum prepared by Messrs. Sloan, Assistant Director of the Division of Examinations, and

2/6/48

-2-

Baumann, Assistant Counsel, under date of January 29, 1948, with respect to an informal request from the Reconstruction Finance Corporation that reports of examination of State member banks which had loans guaranteed by the Corporation under its loan participation programs be made available to the Corporation in order that it may obtain information as to the status of the loans and take steps to protect its interests where necessary. The memorandum recommended, for the reasons stated therein, that the Corporation be advised informally to submit the proposed request and that, upon receipt thereof, the Corporation be advised that the reports would be furnished.

Mr. Vardaman stated that he felt that a report of examination properly could be made available to the Corporation in the case of banks in which it was a stockholder or held other capital obligations of the banks, but that he saw no reason why the Corporation should have access to such reports when it stood only in the position of guarantor of loans made by the banks involved, that if examination reports were to be made available to the Corporation in the latter case the Board might find it difficult to deny similar requests from the Federal Housing Administration or other Government agencies, and that he felt the request of the Corporation should not be granted. He also felt that if examination reports were used for such a purpose it would destroy the

2/6/48

-3-

confidence of banks in the confidential character of the reports.

Chairman Eccles stated that, if there were a condition in the agreement between the member bank and the Corporation that the latter should have access to reports of examination, there would be no objection to granting the Corporation's request, and if it desired to have such access, it should include such a provision in its agreements. Other members of the Board agreed with this view.

During a discussion Mr. Leonard stated that the Division of Examinations had been informed by telephone earlier this week by Mr. Sailor of the Federal Deposit Insurance Corporation and by Mr. Folger of the Office of the Comptroller of the Currency that those agencies had agreed to make available to the Reconstruction Finance Corporation their reports of examination of banks under their respective jurisdictions whenever the Corporation held capital obligations of the bank or when it had guaranteed a loan made by the bank.

Upon motion by Mr. Vardaman, it was agreed unanimously that Mr. Leonard would (1) inform the Reconstruction Finance Corporation informally that the Board would be glad to cooperate and to make reports available in cases in which (a) a request was received from the member bank that the Corporation be given access to the report, and (b) the agreement with the member bank with respect to the Corporation's guarantee authorized reports of examination to be made

2/6/48

-4-

available, but that in the absence of such a request or provision in the agreement, the Board did not feel it would be justified, because of the confidential character of the examination reports, in complying with the Corporation's request; and (2) inform the Federal Deposit Insurance Corporation and the Comptroller of the Currency of the Board's view so that they would have an opportunity to reconsider their decision with respect to reports of examination of banks under their respective jurisdictions.

Mr. Clayton stated that he understood there recently had been a resumption of the practice by certain large insurance companies and other depositors of requesting that depository banks furnish them more detailed information regarding their condition than was given to depositors generally. He stated that this matter had been discussed at the meeting of the Board with the Federal Advisory Council on May 14, 1945, at which time differing views were expressed by members of the Council concerning the imposition of a prohibition by law or regulation upon banks giving such information, that in his opinion large depositors should not be given information as to the condition of banks which was not generally available to other depositors, and that he would take up the question with the other Federal supervisory agencies with a view to discussing what, if any, action might be taken jointly by the agencies to prohibit or discourage banks from responding to such requests.

The members of the Board expressed the view that the

2/6/48

-5-

practice was objectionable for reasons previously discussed by the Board, and that steps should be taken to discourage the practice in so far as practicable.

Chairman Eccles stated that consideration might be given to the sending of a letter by the supervisory agencies to banks within their respective jurisdictions discussing the practice and suggesting that banks not furnish information to large depositors which was not made available to depositors generally. He also suggested that prior to reaching a conclusion in the matter, it would be desirable to obtain the views of the Federal Advisory Council.

Upon motion by Mr. Clayton, it was agreed unanimously that the Secretary should request the Acting Secretary of the Federal Advisory Council to place this topic on the agenda for discussion at the forthcoming meeting of the Council with the Board on February 17, 1948. In taking this action, it was understood that Mr. Clayton, in consultation with representatives of the other Federal bank supervisory agencies, should study the matter further and submit to the Board a recommendation as to what, if any, action should be taken.

Chairman Eccles stated that there was a Joint Committee on Housing in Congress of which Representative Gamble was the Chairman, that the Committee had been studying the whole problem of housing, and that he was thinking of sending to Chairman Gamble

2/6/48

-6-

a letter calling attention to the statement which he (Chairman Eccles) submitted to the Joint Committee on the Economic Report on November 25, 1947, and enclosing a copy of the letter sent to the Secretary of the Treasury on December 9, 1947, when the subject of housing policy was being discussed by an informal group of government agencies headed by Under Secretary of the Treasury Wiggins. He also said that he did not know whether the other members of the Board would be interested in having such a letter go forward to Chairman Gamble as an expression of the Board's views.

There was a general discussion of the need for restricting further expansion of housing credit and Mr. Szymczak suggested that before the letter was sent Chairman Eccles discuss the matter with Under Secretary of the Treasury Wiggins to determine whether he and the Treasury were still working on the matter with a view to taking further action. The purpose of such a discussion, he said, would not be to get the concurrence of the Treasury to the sending of a letter to Chairman Gamble but to ascertain whether anything further was to be done by the Treasury or the other agencies represented at the earlier meetings at the Treasury in the direction of restricting housing credit.

Chairman Eccles stated that he would be talking with Mr. Wiggins shortly about open market matters and would discuss the

2/6/48

-7-

housing problem with him at that time.

Following the discussion, upon motion by Mr. Vardaman and by unanimous vote, the matter was referred to Messrs. Eccles and Szymczak for a recommendation to the Board as to the action to be taken with respect to the letter suggested by Chairman Eccles.

Mr. Vest reported that a bill, S. 2126, had been introduced in the Senate on February 4 by Senator Thomas of Utah entitled "Anti-Inflation Act of 1948" in which it was proposed, among other provisions, that the Federal Reserve Act be amended to provide for the special reserve recommended by the Board and presented by Chairman Eccles to the Joint Committee on the Economic Report on November 25, 1947. He also stated that a routine request for a report on the bill had been received from Chairman Tobey of the Senate Committee on Banking and Currency under date of February 5, 1948.

There was a brief discussion of the bill during which it was agreed unanimously that until it was determined whether active consideration would be given to the bill no reply to the routine inquiry should be made.

Mr. Vardaman referred to the discussion at the meeting on January 30 and stated that he and Mr. Clayton were interested in a further discussion of the adequacy of capital funds of banks, that a conference of Vice Presidents in charge of the Examination Departments of the Federal Reserve Banks was to be held in Washington

2/6/48

-8-

next week at which this and other questions would be discussed, and that he would like to call the Board's attention to the alarming increase of loans and discounts in relation to capital funds of banks and to suggest to the Board the formulation of a policy which would require banks to increase their capital funds where that seemed appropriate and to replace Reconstruction Finance Corporation capital with private capital.

Mr. Clayton then reviewed the tentative agenda for the forthcoming conference of Vice Presidents in charge of the Examination Departments of the Federal Reserve Banks, stating that the matter referred to by Mr. Vardaman was to have an important place in the discussions, and that there was also to be a discussion of the possible desirability of the issuance of a new statement of examination policy by the Federal supervisory agencies.

In this connection there was a discussion of the need for an arrangement under which instances of excessive borrowings by a business concern or individual by spreading loans among several banks might be brought to light, and it was the consensus that it was necessary for the Board to continue to take an active interest in the entire question of examination policy to the end that a coordinated and uniform approach be taken by all Federal

2/6/48

-9-

Reserve Banks in their examinations and analyses of reports of examination of State member banks.

At this point Messrs. Thomas, Vest, and Leonard withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 5, 1948, were approved unanimously.

Memorandum dated February 3, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Ruth E. Morris, a clerk-stenographer in the Division of Examinations, be transferred to the Division of Research and Statistics as a clerk-stenographer with no change in her present basic salary of \$2,469.24 per annum, effective as of the date upon which she enters upon the performance of her new duties. The memorandum also stated that Mr. Leonard had been consulted and was agreeable to the transfer.

Approved unanimously.

Letter to Mr. Stryker, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in your letter of February 3, 1948, the Board of Governors approves the appointment of Mr. Gerard R. Lister as Alternate Assistant Federal Reserve Agent at his present salary of \$4,425 per annum.

"It is understood that Mr. Lister will be placed upon the Federal Agent's pay roll and

2/6/48

-10-

"will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"Please have Mr. Lister execute the usual oath of office which should be forwarded to the Board with advice as to the effective date of Mr. Lister's appointment as Alternate Assistant Federal Reserve Agent."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of February 2, 1948, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the Sanborn County Bank, Woonsocket, South Dakota, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

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

Approved unanimously.

2/6/48

-11-

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

"Reference is made to your letter of January 21 requesting the Board's views as to whether approval should be given to the application of The Commercial Bank of Nephi, Nephi, Utah, for permission to retire its remaining capital debentures of \$14,000, held by the RFC.

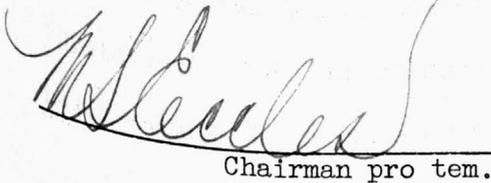
"You advise that the bank proposes to increase its common capital from \$25,000 to \$50,000 by a stock dividend to be declared concurrently with the retirement of the remainder of the capital debentures held by the RFC amounting to \$14,000. In the circumstances, it would appear that no approval of the transaction is required as the proposed reduction is to be offset by an increase in capital. See F.R.L.S. #3455.

"The major problem in this bank appears to be the liberal loan policies manifested for some years rather than the reduction of its capital by \$8,000 more than the amount which would otherwise have been paid out in dividends. A more cautious lending policy would seem to be in order as well as the retention by the bank of a greater proportion of its net earnings until a more favorable ratio of capital to risk assets is attained."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.