

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 5, 1948.

PRESENT: Mr. McCabe, Chairman
 Mr. Eccles
 Mr. Szymczak
 Mr. Draper
 Mr. Evans
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 4, 1948, were approved unanimously.

Letter prepared in accordance with the action at the meeting on September 21, 1948, for Chairman McCabe's signature, to the Honorable M. Cuaderno, Sr., Secretary of Finance, Republic of the Philippines, Statler Hotel, Washington, D. C., reading as follows:

"This will acknowledge your letter of September 13, in which you request that the Board make available the services of certain members of our staff to act as advisers to the Central Bank of the Philippines. The Board is very much gratified to learn that its cooperation up to this time, in the preliminary stages of your program and in the preparation of your central bank legislation, has been so useful to you.

"We attach great importance to the successful establishment of your bank, and I am therefore glad to report that the Board has agreed, in accordance with your request, to give Mr. David L. Grove a leave of absence for a period of six months. Will you please let us know at your earliest convenience the exact date on which you wish Mr. Grove's employment with your Government to begin, so that his leave of absence from the Board can be made effective as of that date?

"The Board has also noted your desire to arrange for a similar leave of absence for Mr. John Exter. As you have already been informed, it is not possible for us to release

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"Mr. Exter at this time. If you wish to use his services during some period after the end of this year, the Board will of course give consideration to a request as that time approaches.

"The Board wants to extend its best wishes for the success of your Central Bank, and to assure you of its desire to cooperate at all times to the utmost of its ability."

Approved unanimously together with
letter to Mr. Grove, Economist, Board
of Governors, reading as follows:

"In compliance with the request of Mr. Cuaderno, Secretary of Finance, Republic of the Philippines, the Board has granted you six months' leave without pay in order that you may perform the services for the new Philippine Central Bank described in his letter of September 13, 1948. Your leave is to begin at such time as Secretary Cuaderno informs us that your service with his Government is to begin."

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of July 15, 1948, regarding the capital position of the Commerce Union Bank, Nashville, Tennessee, reply to which has been delayed because of the urgent pressure of other matters.

"When the bank was admitted to membership, in 1937, its capital position and other factors relating to its status and condition were not satisfactory and definite assurances were received that absorption of the subsidiary national bank through merger was contemplated, which action would be accompanied by an increase of \$500,000, each, in capital and surplus. At that time the bank owned 11,100 of 12,000 outstanding shares of the Broadway National Bank, carried at \$892,000 and having an estimated value of \$721,500.

"There has been no increase in the capital of the subject bank through the introduction of new funds since it was admitted to membership and it still holds, according to the latest report of examination, 11,098 of 12,000 outstanding shares of the Broadway National Bank carried at \$891,800 and having an estimated value of \$1,065,400.

"The capital position of the subject bank must be considered in conjunction with that of its affiliate. Apparently

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"the management does not take this fact into consideration. The actual capital supporting the liabilities of the two banks is the combined capital accounts of the two less the amount at which the stock of the Broadway National Bank is carried on the books of subject bank. At the time of admission to membership the combined actual capital accounts of the two banks amounted to 6.5 per cent of their total assets and 10.1 per cent of risk assets. When examined, May 24, 1948, these ratios were 4.6 per cent and 10.7 per cent, respectively.

"While not all inclusive, it may be said that bank capital is provided to protect the creditors (depositors) of the bank against hazards arising from (1) general economic conditions, (2) local conditions, (3) management policies and (4) defalcations or crimes of violence. In the case of two banks in the same community, one of which is owned by the other, both are subject to identical hazards except, perhaps, for the fourth category and the reason for eliminating the carrying value of the stock of the one bank owned by the other, in determining the amount of capital actually available, appears obvious.

"Information available to the public does not disclose the fact that a substantial part (\$891,800) of the apparent capital of the Commerce Union Bank represents its investment in stock of the Broadway National Bank. It is noted that the management is reluctant to consider sale of the stock of the national bank or converting it to a branch and that the idea of distributing the national bank stock held to the stockholders of the State bank was abandoned because of tax considerations. However, it may be practicable to remove the stock of the national bank from the assets of the State bank and place it in trust for the benefit of the stockholders of the State bank as their interests may appear. If such action were taken, the book capital of the Commerce Union Bank would amount to 4 per cent of total assets and 9.8 per cent of risk assets.

"The Board's letter of May 6, 1948, to which you refer, had reference to the establishment of an out-of-town branch in connection with the absorption of another bank through purchase of assets and assumption of deposit liabilities. The transaction involved the distribution of the capital of the bank absorbed with the consequent diminution of bank capital in the two communities. It was to this type of expansion in particular that the Board had reference in requesting that the bank be advised that it would not look with favor upon further applications unless the bank's capital were satisfactorily

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"increased. The proposed establishment of one or more in-town branches, to which you refer, would represent primarily expansion of facilities. The approval of the Board is not required for the establishment of such branches and the Board would interpose no objection since it is understood that you would consider the bank's proposed activity in this line reasonable.

"The increase of approximately \$2,000,000 in total capital funds of the bank, representing roughly conservation of two-thirds of its earnings and profits for the period since its admission to membership, is impressive. Such a policy is also satisfactory. The improvement effected in the asset condition of the bank since admission is also recognized. However, the increase in capital funds has barely kept pace with the increase in the bank's liabilities and its capital position, considered unsatisfactory at the time of its admission, remains relatively the same. In the circumstances, the capital program, as a whole, cannot be considered satisfactory.

"When admitted to membership and since admission the management has asserted its ability and willingness to increase capital through introduction of new funds but has always found it inexpedient to take action. Nevertheless, the management is and has been successfully aggressive in expanding its business. The pursuit of such a policy usually involves, and in this case has involved, the maintenance of a comparatively large investment in risk assets.

"It is noted that the management does not consider an increase in capital through the sale of additional stock practicable at this time and it is understood that you concur in the opinion of the management. The Board is not disposed to prescribe a program that would be impossible to accomplish but feels that the matter should be of primary concern to the management, particularly its risk asset position.

"Until some satisfactory action is taken to remove or reduce to a nominal amount the carrying value of the stock of the national bank on the books of the Commerce Union Bank, the Board would not feel justified in cancelling the condition of membership, numbered 9 when prescribed, having reference to disposition of the bank's investment in the national bank."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Honorable Brien McMahon, United States Senate, reading as follows:

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"This refers to your thoughtful letter of September 16, 1948, regarding the two proposed amendments to Regulation W relating to the enforceability of contracts and the regulation of repair and modernization credits. The Board has not yet acted on these amendments and I assure you that the points you raise will be studied carefully before a decision is made.

"We are fully aware of the important role which repair and modernization credit plays in the economy but at the same time we are concerned with the inflationary expansion of such credit which recently has been growing more rapidly than almost any other type of credit and which is currently outstanding in an amount well over a billion dollars. We have no desire to restrict these credits unreasonably and whatever consideration we have given to including them under the regulation has been along lines of seeking merely to level off the excesses.

"Whether or not the regulation of repair and modernization credits would be a burden on 'the little fellow', as you fear, naturally would depend largely on the specific provisions of the amendment, if one is adopted. Any such provisions would be determined with full consideration of the kind of activity involved and would be likely to follow a pattern quite different from the one applicable to the credits already subject to the regulation. In general, however, it is our feeling that whatever we can do to restrict inflationary pressures will be helpful to everyone, and particularly helpful to the lower income groups who carry the greatest burden from inflated living costs.

"The objections you raise to the proposed amendment dealing with the enforceability of contracts have also been noted. We recognize the legal problems involved and will give full weight to these aspects in reaching our decision.

"I am glad to have your point of view on these amendments and thank you for your interest in writing us."

Approved unanimously.

Letter to Mr. Victor H. Nyborg, President, Association of Better Business Bureaus, Inc., 900 Chrysler Building, New York 17, New York, reading as follows:

"The Board of Governors is gratified to learn of the action taken with respect to voluntary standards of

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"advertising in keeping with the terms of Regulation W at the Conference of Representatives of Business Groups under the auspices of the Association of Better Business Bureaus, Inc. held in New York, September 21.

"The Board likewise hopes that the action taken will be of assistance in promoting the fullest possible understanding of Regulation W and in obtaining the cooperation of those in business subject to the provisions of the Regulation.

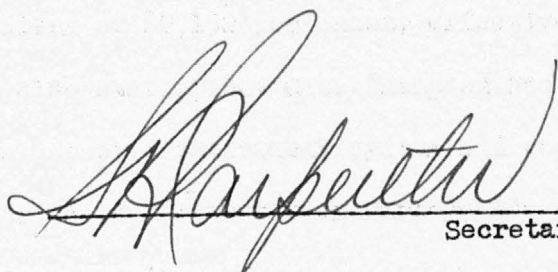
"The Board appreciates this further evidence of the fine cooperation from the Better Business Bureaus and business groups whose operations come under the provisions of the Regulation."

Approved unanimously.

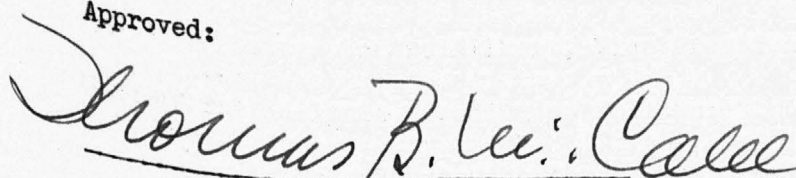
Letter to the Presidents of all Federal Reserve Banks except Atlanta reading as follows:

"Reprints have been prepared of the essay on 'Steps to Restore Powers of States and Localities,' by Mr. Solomon, Assistant General Counsel at the Board. This essay, which won the \$2,500 Ross Essay Award of the American Bar Association for 1948, will be listed in the October issue of the Federal Reserve Bulletin and copies will be available upon request. We are enclosing ten copies at this time. If an additional supply is needed at your Bank, please advise us."

Approved unanimously.


Secretary.

Approved:


Chairman.