

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 2, 1949. The Board met in the Special Library at 2:30 p.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
Mr. Vardaman

Mr. Carpenter, Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Vest, General Counsel  
Mr. Nelson, Director of the Division of  
Personnel Administration

After an informal discussion of matters relating to (1) the decision of the Board in January 1945 not to make reports of examinations of holding company affiliates available to such affiliates, and (2) the use of information obtained from reports of examination of national banks, Mr. Vardaman referred to a memorandum, dated April 12, 1949, from Mr. Carpenter submitting a draft of the policy record, prepared in accordance with the provisions of the last paragraph of Section 10 of the Federal Reserve Act, covering actions taken by the Board during the year 1948. The draft of record had been circulated among the members of the Board, and Mr. Vardaman had asked that the Board consider a question which he wished to raise in connection with the record. He stated that in two cases the draft of record showed that the action had been taken with only three members of the Board present, and it would

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be his suggestion that in any such case the record show not only the members who voted on the action but also the position of the members who are not present but who had expressed their views with respect to the action.

It was stated that the draft of record for the year 1946, discussed at the meeting of February 21, 1947, had been prepared in the manner suggested by Mr. Vardaman, but at that meeting it was agreed unanimously that reference to the views of members who were not present and who did not vote on the actions recorded in the policy record should not be shown.

In the ensuing discussion, it was the consensus of the members present that the policy record should be written in such manner as to show how members of the Board voted, even though a majority was not present when the action was finally taken.

There was a discussion of various ways in which this could be accomplished, at the conclusion of which Mr. Vardaman moved that hereafter the policy record (including the record for the year 1948) show the names of the members of the Board who voted for and against the action without showing the names of the members who were or were not present when the final action was taken.

This motion was put by the Chair and carried unanimously.

Chairman McCabe referred to discussions at earlier meetings

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of the Board with respect to the form of legislation to be proposed with respect to reserve requirements and consumer installment credit regulation. He suggested that the Board present to the Chairmen of the Senate and House Banking and Currency Committees a bill which would grant permanent authority to the Board of Governors to prescribe supplemental reserve requirements for all insured banks in amounts up to 10 per cent of demand deposits and four per cent of time deposits, and that if the Committee Chairmen felt that it would be unwise to request increased authority to this extent, the Board defer to their judgment and suggest that the legislation grant the Board permanent authority to prescribe supplemental reserve requirements for insured banks in amounts up to 4 per cent of demand deposits and 1-1/2 per cent of time deposits.

There was a discussion of this proposal, and it was agreed unanimously that Chairman McCabe should prepare a draft of memorandum in accordance with the above suggestion.

It was also agreed that (1) the draft of the bill previously considered by the Board should be changed to make it apply only to insured banks which received demand deposits and (2) the section of the bill relating to enforcement should include a statement to the effect that neither the Board nor any Federal Reserve Bank should under authority of the section examine or exercise visitorial powers with respect to any nonmember insured bank.



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Mr. Carpenter stated that following the meeting on Friday, April 29, 1949, it was ascertained from the Budget Bureau that, if the views of the Board on the alternative proposal of the Federal Deposit Insurance Corporation with respect to capital requirements of banks could be sent to the Bureau promptly, the Board would be advised within 24 hours whether the Bureau would have any objection to the drafts of legislation and letters to the Banking and Currency Committees which were enclosed with the Board's letter to the Bureau of the Budget under date of March 17, 1949. Mr. Carpenter also said that in the circumstances Mr. Clayton would recommend that the following letter be sent to the Bureau of the Budget immediately:

"Receipt is acknowledged of your letter of April 29, 1949, in which you refer to our letter of March 17, 1949 transmitting copies of proposed legislation to amend section 9 of the Federal Reserve Act and request such further comments as we may care to make in the light of the suggestions contained in a communication of April 28, 1949 from the Federal Deposit Insurance Corporation, a copy of which you enclose.

"The letter from the Federal Deposit Insurance Corporation seems to consider the Board's proposal as one which contemplates a reduction in the capital requirements of banks which are insured or are eligible for insurance. The basic capital requirements for banks, however, are those established by the Federal law for national banks and by the State law for State banks. The Board's proposal does not effect any change in such capital requirements. It merely eliminates specific or fixed capital requirements for the admission of State banks to membership in the Federal Reserve System or for the operation of branches by such State banks. These State banks are now insured by the Federal Deposit Insurance Corporation or could be admitted to insurance with the approval of the Corporation. They would, of course, continue to have the capital required of them by State law, regardless of

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"the enactment of the Board's proposal. Thus there would be no reduction in the capital required of insured banks.

"In order that State banks may be approved for insurance by the Federal Deposit Insurance Corporation, the latter must give consideration to certain factors, including 'the adequacy of its capital structure'. The Board's proposal would provide that a State bank could not come into membership in the Federal Reserve System unless it has a 'capital and surplus which in the judgment of the Board \* \* \* are adequate', with certain minima being specified; and in giving its consent for branches the Board would have to consider 'the adequacy of capital structure' among other factors, as would the Federal Deposit Insurance Corporation with respect to branches of nonmember insured banks. Thus the Board's proposal with regard to capital requirements for admitting banks to the Federal Reserve System and for consenting to the establishment of branches by such banks adopts the flexibility of the present law with respect to the approval by the Corporation of the admission of banks to insurance and the establishment of branches by insured banks.

"As pointed out in the letter of the Federal Deposit Insurance Corporation, Congress did not wish to exclude from deposit insurance the State banks of smaller communities that could not meet the fixed capital requirements of the national banking system. It is our view that on the same principle such State banks in smaller communities which cannot meet the fixed capital requirements of the national system should not be excluded from membership in the Federal Reserve System.

"The letter from the Federal Deposit Insurance Corporation proposes that each insured bank be required to transfer 50 per cent of its net earnings to surplus until its capital funds reach a percentage of from 8 to 10 per cent of deposits, that branches be permitted only if a bank has capital funds equal to such a percentage, and that branches be terminated when the capital account falls below such a percentage.

"This proposal for the building up of surplus of all insured banks, in addition to going far beyond the scope of the bill which we have proposed is, it seems to us, much too rigid and inflexible. Unless a bank had built its capital up to the required percentage, it could not establish a branch, regardless of the fact that its condition and the character of its management might be excellent and that the community to be served might be in

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"great need of banking facilities. Moreover the provision for the termination of branches when the capital of a bank in any calendar year falls below the required percentage would place a bank and the community which the branches serve in constant uncertainty as to the continuous character of the facilities afforded. This provision would in our judgment be not only impracticable but most undesirable.

"The Board's proposal, on the other hand, is a flexible one which would give the Board authority to admit banks to membership or to establish branches when the Board concludes on the basis of all the facts that the capital structure of the bank is adequate for the purpose. We believe that the present requirements of the law constitute an unfair and unjustified discrimination against membership in the Federal Reserve System of State banks, most of which are already insured.

"We hope that you will now be in a position to advise us as to the relationship to the President's program of the proposal submitted with our letter of March 17, 1949."

Approved unanimously.

At this point Messrs. Riefler, Vest, and Nelson withdrew and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 29, 1949, were approved unanimously.

Memorandum dated April 29, 1949, from Mr. Vest, General Counsel, recommending the appointment of Mrs. Erma Lee Hufford as a stenographer in the Legal Division, with basic salary at the rate of \$2,724 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.



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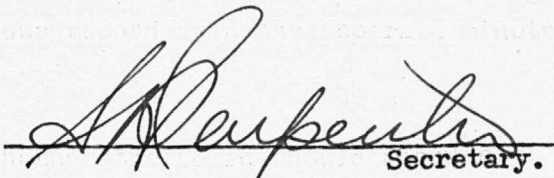
Memorandum dated April 28, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that a fee be paid to Mrs. Edna Hardesty, a registered nurse employed during the absence of Miss M. Callie Wickline, the nurse in charge of the emergency room, at the rate of \$11.60 per day that she worked, and also that \$34.80 be charged to the Miscellaneous Expense Account of the 1949 Budget of the Division of Personnel Administration.

Approved unanimously.

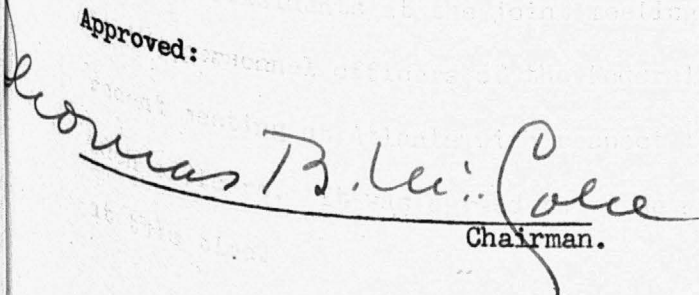
Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Governor Szymczak has brought to the Board's attention your letter of the 25th regarding Dr. Williams' visit to Europe at the request of Mr. Paul Hoffman and Mr. Averell Harriman. The Board notes that Dr. Williams is to act as a consultant to the Economic Cooperation Administration for about six weeks and is glad that his services are to be available to the Administration."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.