

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 13, 1950. The Board met in the Special Library at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Pawley, Economist, Division of Research and Statistics

Before this meeting there had been furnished to each member of the Board a memorandum from Messrs. Young and Pawley dated June 8, 1950, with respect to the question of System policy on margin requirements for the purchasing and carrying of securities. The memorandum stated that in view of the substantial rise in common stock prices and stock market credit which began shortly after margin requirements were reduced from 75 per cent to 50 per cent in March 1949, and the strong upswing in economic activity since mid-1949, a survey of various factors which appeared to be most important in the present stock market situation had been undertaken, and that, on the basis of a careful appraisal of these factors, it was concluded that no action was nec-

6/13/50

-2-

essary at this time to raise margin requirements to more restrictive levels. The memorandum also stated that developments now under way in the stock market would require constant study and frequent review during coming months.

There followed a general discussion of the increase in use of credit in the stock market since March 1949 and of the relationship of such credit to the total expansion of credit in the economy. It was the consensus of the members of the Board who were present that the increase in use of credit in the stock market was of minor importance in the present inflationary situation, particularly when compared with increases in credit going into housing, consumer durable goods, and other economic activities, and that no change in margin requirements was called for at this time although the situation should be reviewed frequently over the next several months.

Messrs. Solomon and Pawley withdrew from the meeting at this point.

There was presented a draft of letter to Mr. Dawes, Secretary of the Federal Reserve Bank of Chicago, prepared in response to a letter from that Bank dated June 2, 1950, with respect to an extension of the leave of absence granted George W. Mitchell, Senior Economist, who has been serving as Director of Finance of the state of Illinois since January 1949.

The draft was read, changed,
and approved in the following form:

6/13/50

-3-

"Reference is made to your letter of June 2, 1950, advising that at the meeting of June 1, 1950, the Executive Committee of your Bank approved an extension of the leave of absence of Mr. George W. Mitchell, Senior Economist, to December 31, 1950. It is understood that this extension was granted in order that he may continue as Director of Finance of the State of Illinois.

"This matter was presented to the Board for consideration, and the conclusion was reached that inasmuch as Mr. Mitchell has been on leave of absence for this purpose since the beginning of 1949, a definite decision should be made at this time with respect to the date on which he will return to his position at the Bank or whether he will continue in his present position indefinitely. If there were a definite understanding now that he would resume his work at the Bank on or before January 1, 1951, the Board would be willing to approve the proposed additional leave. In the absence of such agreement, the Board would be unwilling to approve extension of Mr. Mitchell's leave beyond July 1, 1950."

Chairman McCabe stated that a letter had been received from Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, under date of June 5, 1950, stating that that Bank had received a confidential letter from Bank of America National Trust and Savings Association, San Francisco, California relating to certain steps to be taken for the issuance and redemption of savings bonds at new branches of the National Bank to be established by the conversion into branches of some 21 banks now under the control of Transamerica Corporation and that in that letter the National Bank stated that the authorizations to operate the new branches were expected shortly and it was anticipated that the effective date would be about June 24, 1950. He went on to say that inasmuch as the Board had received no word as to the

6/13/50

-4-

authorization for such branches, and in view of the relationship of the matter to the Clayton Act proceeding involving Transamerica Corporation, he had asked that a draft of letter to Comptroller of the Currency Delano be prepared requesting that Mr. Delano let the Board know the present status of the proposed conversion of Transamerica controlled banks into branches.

Mr. Vest stated that this morning he received a telephone call from Mr. Pierotti, Washington representative of the Bank of America N. T. & S. A., requesting 16 copies of forms prescribed by the Board for surrender of Federal Reserve Bank stock by a member bank going into liquidation and that he (Mr. Vest) assumed the request related to the proposed conversion into branches of the Transamerica owned member banks referred to in the letter from the Federal Reserve Bank of San Francisco.

The draft of letter to Comptroller Delano was read, discussed, and approved unanimously in the following form:

"Under date of June 5, 1950, the Board was informed by the Federal Reserve Bank of San Francisco that it had received a confidential letter from Bank of America National Trust and Savings Association, San Francisco, California, relating to certain steps to be taken for the issuance and redemption of savings bonds at new branches of the national bank to be established by the conversion into branches of some 21 banks now under the control of Transamerica Corporation and that in that letter the national bank stated that the authorizations to operate the new branches were expected shortly and it was anticipated that the effective date would be about June 24.

"We are deferring a reply to the letter from the Federal Reserve Bank of San Francisco, and in view of the

6/13/50

-5-

"relationship of this matter to the Clayton Act proceeding involving Transamerica Corporation, it will be appreciated if you will let me know the present status of the proposed conversion of the Transamerica control banks into branches of Bank of America."

In taking this action it was understood that Chairman McCabe would also discuss the matter with Attorney General McGrath and report to the Board the results of the discussion.

During the foregoing discussion Chairman McCabe was called from the meeting to talk with Chairman Spence of the House Banking and Currency Committee and upon his return stated that Mr. Spence had said that Representative Patman, also a member of the Committee, had stated that he would like to have a hearing on H. R. 7895, a bill to increase the amount of funds which might be spent on construction of Federal Reserve Bank branch buildings and on H. R. 7894, a bill to extend the existing authority for the Federal Reserve Banks to purchase Government securities directly from the Treasury. Chairman McCabe also said that in response to Mr. Spence's request, he stated that the Board would have someone appear before the Committee at the hearing tentatively scheduled for 10:00 o'clock tomorrow morning, June 14.

Chairman McCabe went on to say that in view of the meeting of the Federal Open Market Committee tomorrow morning, he questioned whether he should attend the hearing, and in the ensuing discussion it was suggested that Mr. Vest, General Counsel, Mr. Thomas, Economic

6/13/50

-6-

Adviser to the Board, and Mr. Leonard, Director of the Division of Bank Operations, be authorized to appear before the Committee to make a statement on the technical aspects of the proposed bill on behalf of the Board, in accordance with previous statements made by the Board, particularly the statement made before the Douglas Subcommittee of the Joint Committee on the Economic Report.

The foregoing suggestion was approved unanimously.

Messrs. Thomas and Nelson withdrew and Mr. Baumann, Assistant General Counsel, joined the meeting at this time.

Chairman McCabe referred to recent informal discussion with Senator Robertson concerning the pending bank holding company legislation, as reported at the meeting on June 7, 1950, and stated that pursuant to that discussion he had had prepared a draft of memorandum, concerning points of difference between members of the Robertson Subcommittee, for the personal and confidential use of Senator Flanders in attempting to bring about agreement on a form of bank holding company bill which might be reported out by the Senate Banking and Currency Committee.

The draft of letter was read, changed, and approved in the following form:

"In our recent telephone conversation with respect to the bank holding company legislation, we discussed Senator Robertson's suggestion that you might act as a sort of catalytic agent in an effort to bring his views and those of Senator Douglas together and you requested that I furnish you a memorandum for your personal use in that connection.

"The Board, of course, very naturally feels that as an agent of Congress, it must give to the Committee

6/13/50

-7-

"its very best professional opinion in the matter; and as you know it has repeatedly expressed its views, first, in the presentation of the legislation which was first introduced in this Congress; second, in certain amendments which were proposed by the Board; and third, in various reports and statements which it made to the Committee and Senator Robertson. In this connection I enclose a copy of our memorandum of April 27, 1950, expressing the views of the Board on the earlier draft of Senator Robertson's bill.

"The point has now been reached where your Committee has had the benefit of the best available advice from all sides, and the question before the Committee involves an appraisal of that advice and the consideration of what course of action should now be followed. As we have heretofore indicated, the Board will, of course, carry out to the best of its ability any bill that the Congress enacts, and the question whether a desirable compromise can be effected is a matter for the determination of the Committee.

"However, we wish to be as helpful as possible in this matter, and there is enclosed for whatever it may be worth a memorandum entitled 'Possible Amendments to Robertson Bank Holding Company Bill, S. 3547', which we hope may be of some assistance to you in your attempt to bring the views of Senator Robertson and Senator Douglas together.

"It is highly desirable to attain legislation if it is possible to do so, as failure to pass a bill at this session might mean the postponement of action by Congress with respect to bank holding companies until some future time when a banking crisis arises."

The memorandum attached
to the letter read as follows:

"POSSIBLE AMENDMENTS TO ROBERTSON
BANK HOLDING COMPANY BILL, S. 3547"

"There have been several substantial points of difference with respect to S. 3547, the Robertson Bank Holding Company Bill. These have related to (1) definition of bank holding company, (2) control over expansion through the purchase of bank assets, (3) authorization of investigations, regulations, and civil enforcement, (4) provision for registration, reports, and examinations of bank holding companies, and (5) diffusion of administrative authority. All of these

6/13/50

-8-

"matters are touched upon in the proposed amendments presented by Senator Douglas on behalf of himself and Senator Tobey.

"Definition of bank holding company. - The definition in S. 3547 is based primarily upon the definition of holding company affiliate in existing law. This form of definition will not fully accomplish the purposes of the legislation; and it would be preferable at least to reduce the percentage test from 50 per cent to 25 per cent and to substitute the words 'exercises a controlling influence over the management or policies of an insured bank' for the words 'controls in any manner the election of a majority of the directors of an insured bank'. However, if it is essential in order to obtain legislation at this time, acceptance of the definition contained in S. 3547 would be better than no legislation.

"Purchase of bank assets. - S. 3547 does not contain any provision controlling expansion through the purchase of assets of additional banks by banks in bank holding company groups. There is a satisfactory provision on this subject in one of the Douglas-Tobey amendments. It has been suggested, however, that legislation should be adopted which would regulate or control the acquisition of assets of banks by any insured bank whether or not it is in a holding company group. This would involve separate consideration of this subject and would not need to be a part of bank holding company legislation. In the circumstances, although the control of the purchase of bank assets is very important, it could be omitted from the holding company legislation; but, if this is done, there should be separate legislation on this subject.

"Investigation, regulation, and civil enforcement. - S. 3547 would rely solely upon criminal penalties for enforcement. It does not authorize any Government agency to conduct investigations, subpoena witnesses and records, issue regulations, or to enforce the law by administrative or civil action. Such provisions are necessary for effective administration and are contained in one of the Douglas-Tobey amendments. Some such amendment is essential. If Congress should be unwilling to grant the power to conduct investigations, however, but would include authority for civil enforcement of the law through injunctive proceedings in the courts to prevent violations, every effort would be made to enforce the

6/13/50

-9-

"legislation as far as possible within the limited authority given; but it should be emphasized that this would very materially weaken the legislation.

"Registration, reports, and examinations. - S. 3547 contains no provisions with respect to registration, reports, and examinations of bank holding companies. It seems essential that these matters be covered and, in fact, there did not appear to be any significant disagreement on this point during the hearings. The Douglas-Tobey amendment dealing with these matters is satisfactory.

"Administration. - One of the fundamental questions involved in this legislation is whether its administration (and particularly approval of expansion by bank holding companies) should be vested in a single administrative agency, or diffused among the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, as provided in S. 3547. Such a diffusion might lead to the application of varying policies in similar situations, and it is believed to be necessary that there be a centralization of administrative responsibility in a single agency, as provided in the Douglas-Tobey amendments. An alternative which might possibly be considered (although it is questionable whether it would be practicable) would be to require the unanimous approval of all three Federal supervisory agencies before any action involving expansion by a bank holding company group.

"Miscellaneous. - The adoption of modifications such as those indicated above would call for a few minor drafting changes in other provisions of the bill in order to conform them to the amended provisions, but these would not involve questions of policy."

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 June 9, 1950, were approved unanimously.

6/13/50

-10-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 12, 1950, were approved and the actions recorded therein were ratified unanimously.

Letter to Honorable H. E. Cook, Director, Federal Deposit Insurance Corporation, Washington 25, D. C., reading as follows:

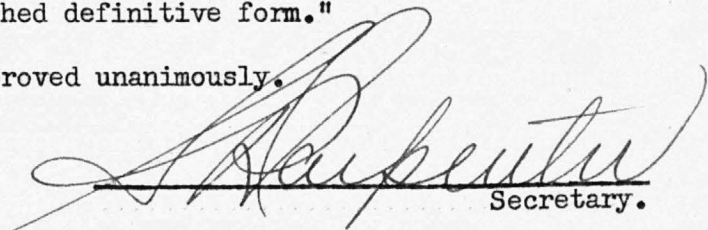
"Consideration has been given by the Board to your letters of June 1 and June 5 to Governor Vardaman regarding the matter of compiling information regarding defalcations in insured banks.

"As indicated in your letter of June 1, a meeting was held on April 4 at the offices of your Corporation attended by Mr. Clarke of the Division of Examination and Mrs. Garber of the Division of Research and Statistics, both of your Corporation, Assistant Chief National Bank Examiner Taylor, and Mr. Goodman of the Board's Division of Examinations for the purpose of discussing a proposal regarding the accumulation of information with regard to defalcations in each insured bank. It was agreed that your representatives would prepare a memorandum outlining the purposes of the proposal and describing the suggested procedure, and that it would be transmitted informally to representatives of the other two agencies for further consideration.

"Although our Division of Examinations has been studying the matter in the meantime in connection with currently reported criminal violations, the memorandum by your staff has not yet been received. However, it is understood from Mr. Goodman's telephone conversations on June 8 with Mr. Clarke that the memorandum will be available the latter part of this month.

"The Board has asked me to assure you that this matter will continue to have the active attention of our Division of Examinations and that further consideration will be given to the matter by the Board when the proposal has reached definitive form."

Approved unanimously.


Secretary.