

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 24, 1950. The Board met in the Conference Room at 3:05 p.m.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Draper  
Mr. Evans

Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Riefler, Assistant to the Chairman  
Mr. Leonard, Director, Division of  
Bank Operations  
Mr. Vest, General Counsel  
Mr. Millard, Director, Division of  
Examinations  
Mr. Sloan, Assistant Director, Division  
of Examinations

There were presented telegrams reading as follows.

To Mr. McCreedy, Vice President of the Federal Reserve Bank of Philadelphia:

"Retel August 24, Board approves effective August 25, 1950, rates of 1-3/4 per cent on discounts and advances under Sections 13 and 13a, except advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13; 2-1/4 per cent on advances under Section 10(b); and on bankers' acceptances, 1-3/4 per cent for maturities of 1 to 90 days, 1-7/8 per cent for maturities of 91 to 120 days, and 2 per cent for maturities of 121 to 180 days. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule. Board will announce change after 4 PM EDT today."

To Mr. Fletcher, First Vice President of the Federal Reserve Bank of Cleveland:

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"Retel August 24, Board approves effective August 25, 1950, rates of 1-3/4 per cent on discounts and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances to member banks under Section 10(b); 2-3/4 per cent on advances to individuals, partnerships, and corporations, including nonmember banks, but excluding member banks, secured by direct obligations of the United States under paragraph 13 of Section 13; and minimum buying rate of 1-3/4 per cent on bankers' acceptances. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule. Board will announce change in discount rate after 4PM EDT today."

To Mr. Leach, President of the Federal Reserve Bank of Richmond:

"Retel August 24, Board approves effective August 25, 1950, rates of 1-3/4 per cent on discounts and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and minimum buying rate of 1-3/4 per cent on bankers' acceptances. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule. Board will announce change in discount rate immediately."

To Mr. Dawes, Vice President of the Federal Reserve Bank of Chicago:

"Retel August 24, Board approves effective August 25, 1950, rates of 1-3/4 per cent on discounts and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and minimum buying rate of 1-3/4 per cent on bankers' acceptances. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule. Board will announce change in discount rate after 4 PM EDT today."

To Mr. Johns, Vice President of the Federal Reserve Bank of Kansas  
City:

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"Retel August 23, Board approves effective August 25, 1950, rates of 1-3/4 per cent on discounts and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and minimum buying rate of 1-3/4 per cent on bankers' acceptances. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule. Board will announce change in discount rate after 4 PM EDT today."

To Mr. Gilbert, President of the Federal Reserve Bank of Dallas:

"Retel August 24, Board approves effective August 25, 1950, rates of 1-3/4 per cent on discounts and advances under Sections 13 and 13a; 2-1/4 per cent on advances to member banks under Section 10(b); and minimum buying rate of 1-3/4 per cent for bankers' acceptances. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule. Board will announce change after 4 PM EDT today."

Approved unanimously.

Before the meeting there had been handed to each member of the Board present a copy of a letter from Manufacturers Trust Company, New York, New York, dated August 23, 1950, addressed jointly to the Board and the Federal Reserve Bank of New York, in which the Manufacturers Trust Company, an insured member bank, requested approval in principle of a proposed merger of the Brooklyn Trust Company, New York, New York, into that institution pursuant to the provisions of Section 12B (v) (4) of the Federal Reserve Act, as amended. The letter, which outlined the principal facts involved in the proposed merger and attached a pro forma statement of condition as of June 30, 1950 of each of the two institutions and a pro forma statement of condition of the

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Manufacturers Trust Company after effectuation of the proposed merger, had been received at the Federal Reserve Bank of New York yesterday and its contents transmitted to the Board by telephone.

At the request of Mr. Szymczak, Mr. Millard explained the effect of the contemplated merger on the accounts of the banks involved, based on statements contained in the above mentioned letter. An analysis of the situation, he said, revealed that the capital stock account of the resulting institution would be smaller by \$2,810,000 than the combined capital stock accounts of the two institutions prior to the merger, whereas there would be an increase in surplus of \$3,444,000. The undivided profits account would be lower by \$7,840,000 and reserves by \$3,875,000, with the result that there would be a net decrease in the capital structure of \$11,081,000. In addition, Mr. Millard said, there was to be a write-up of the banking house to the extent of \$1,899,000 and an appreciation of the securities account amounting to \$2,435,000.

Mr. Millard also stated that if the merger were carried out, the Manufacturers Trust Company would have a ratio of capital to total assets of approximately 6.6 per cent and a ratio of capital to risk assets of 16.8 per cent. These ratios, he said, were considerably lower than those of other New York City banks of comparable size and slightly lower than the national average for all banks (7 per cent and 20 per cent). He added, however, that if given credit for excess

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valuation reserves, the Manufacturers Trust Company following the merger would have a capital-risk-asset ratio of somewhat better than 19 per cent.

Mr. Vest reviewed the provisions of law necessitating written consent of the Board in this particular case, stating that Public Law No. 706, which became effective August 17, 1950, amended Section 12B (v) (4) of the Federal Reserve Act so as to provide in part and in effect that no insured bank shall merge or consolidate with an insured State bank under the charter of a State member bank (except a District bank) if the capital stock or surplus of the resulting or assuming bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks, unless the Board of Governors gives prior written consent. In the case before the Board, Mr. Vest said, the fact that the capital stock of the resulting bank would be less by \$2,810,000 than the aggregate capital stock of the merging banks made it necessary that the Board give its written consent to the transaction. He went on to say that the Board must determine whether in the public interest the capital and surplus of the resulting bank would be sufficient. A bank might arrange its capital accounts so that consent of the Board would not be required, Mr. Vest pointed out, by making sufficient transfers out of its undivided profits account into capital and surplus. He added that if the Federal Deposit Insurance bill

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currently in conference between the Senate and the House should be passed in the form in which it now stood, the law would be changed in such a way that the Board's consent no longer would be required in cases of this nature.

In an ensuing discussion Mr. Vest stated that the legislation which eventuated in Public Law No. 706 had been before Congress since early in 1949 and that the Manufacturers Trust Company presumably was aware of this fact. Nevertheless, he felt that there was some reason to believe that the transaction might have been in process of consummation at the time the law was passed and, if so, this would constitute an extenuating circumstance. Mr. Vest also stated that, in his opinion, the Board would be justified in declining to give approval to the transaction should it so desire, although he pointed out that the merging banks by a readjustment of their accounting might thereupon arrange the merger in a manner which would not require the Board's consent.

Mr. Szymczak stated that President Sproul of the New York Reserve Bank called him on the telephone this morning to say that he had conferred with Chairman McCabe about this matter by telephone earlier in the day, that Chairman McCabe told him that from what he understood of the transaction he would have no objection to it, and that he (Mr. Sproul) also favored approval since the proposal had been cleared informally by the Superintendent of Banks of the State



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of New York, since the combined capital stock and surplus accounts would be greater following the merger than before, and since the merging banks could, if necessary, carry out the transaction on another basis which would not require the Board's consent and which might be less satisfactory than the merger proposed. Mr. Szymczak added that Mr. Sproul felt that regardless of the Board's decision, prompt action should be taken. He went on to say that inasmuch as the proposed merger had been approved by the Reserve Bank and the New York State banking authorities and in view of the reasons advanced by Mr. Sproul, he (Mr. Szymczak) would be inclined to favor approval.

Mr. Evans said that after studying the matter with Messrs. Millard and Sloan earlier today he had come to the conclusion that he could not vote in favor of it. His reasons for adopting this position, Mr. Evans said, were that the Manufacturers Trust Company now has a relatively low ratio of capital to risk assets which would be further reduced if the merger were effected, that the Board's consent in this case would establish a precedent for making exceptions in other cases coming before it, that current policy called for the injection of more capital into the banking structure, and that the Manufacturers Trust Company could without any hardship arrange its capital structure so as to obviate the necessity for Board consent. He also said that there was no emergency in this situation that required immediate completion of the merger.

At this point Mr. Eccles joined the meeting.

Mr. Eccles expressed the opinion that in deciding whether to

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give its consent to a proposal of this kind, the Board should consider especially whether, after the transaction had been completed, the capital structure of the resulting bank would be adequate. In making such a determination, he said, the Board should compare the capital structure with that of other banks, both locally and nationally. In this case, the relatively low capital ratios of Manufacturers Trust Company as compared with other New York City banks might be disregarded to some extent because the type of its business was not strictly comparable with that of the other large institutions, and in any event its capital ratios were only slightly lower than the national averages for all banks. Furthermore, the combined capital and surplus of the resulting bank would be greater than the aggregate capital and surplus of the two institutions prior to the merger. Mr. Eccles went on to say that other banks were being admitted to membership in the Federal Reserve System with lower capital ratios than the consolidated bank would have and that it would be inconsistent to withhold consent in a case such as the one now presented. If the bank in question were under criticism from the supervisory authorities, or if its management were inadequate, these would be additional grounds on which the Board might withhold its consent, Mr. Eccles said, but in the case now before the Board there was no evidence of such conditions. Mr. Eccles concluded by saying that under the circumstances, and especially in view of the fact that the Federal Reserve Bank of New York and the New York State banking authorities had approved the proposal, he could see no justification for the Board's refusing to give its consent even though it



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might feel the decrease in total capital funds as a result of withdrawals from the undivided profits account was not desirable.

Mr. Evans reiterated his reasons for feeling that the Board should not consent to the proposed merger on terms which would result in the indicated reduction in total capital accounts and stated he would wish to be recorded as voting against it.

Mr. Draper stated that he felt the same as Mr. Evans and would vote against the merger on the basis proposed.

Following a further discussion, it was understood that since two members of the Board present (Messrs. Eccles and Szymczak) stated they would approve the proposed merger and since Chairman McCabe had expressed a like opinion over the telephone, the Board would indicate informally to the Federal Reserve Bank of New York that, on the basis of the information presented, upon receipt of a formal request from the Manufacturers Trust Company, the Board would give written consent to the proposed merger.

At this point all of the members of the staff with the exception of Messrs. 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 August 23, 1950, were approved unanimously.

Memorandum dated August 16, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase

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in the basic salary of Mrs. Marie Butler Leven, Economist (Editorial), in that Division, from \$6,400 to \$6,800 per annum, effective September 3, 1950.

Approved unanimously.

Memorandum dated August 23, 1950, from Mr. Chase, Assistant Solicitor, recommending that the resignation of Miss Diane K. Vigeant, a stenographer in the Office of the Solicitor, be accepted to be effective, in accordance with her request, at the close of business August 25, 1950.

Approved unanimously.

Letter to Mr. Arthur W. Marget, Director, Division of International Finance, Board of Governors of the Federal Reserve System, Washington, D. C., reading as follows:

"The Board has authorized you, in your capacity as Director of the Division of International Finance, to proceed to Paris, France, for the purpose of attending the annual meetings of the Governors of the International Monetary Fund and the International Bank for Reconstruction and Development, to be held from September 6 to 16, and thereafter to proceed to Brussels, Belgium, for the purpose of representing the Board at ceremonies on September 18 incident to the one hundredth anniversary celebration of the National Bank of Belgium.

"While you are absent from Washington, D. C., your actual necessary transportation expenses in accordance with the Board's travel regulations, charges for flight insurance, and a per diem in lieu of subsistence at the rate of \$13.00 will be paid from funds under control of the Board.

"It is requested that you retain the original

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"of this letter, and that the file copy, after being initialed by you, be returned to the Board's files."

Approved unanimously.

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

"Enclosed is a copy of the revised accounting manual which the Board has approved for use by the Federal Reserve Banks in preparing certain reports to the Division of Bank Operations, and which is to become generally effective January 1, 1951.

"The approved manual is substantially similar to the draft which was forwarded to you for your comments and suggestions with Mr. Leonard's letter of July 14, 1950. The principal changes are limiting the reporting of the number of employee hours to those units for which a cost per item is determined, and adding a provision for reporting the average number of employees in all functions and units. These changes were made after giving careful consideration to suggestions made by a number of Banks with respect to the reporting of man-power data.

"It is contemplated that within the next year a printed edition of the manual will be issued to replace the present mimeographed issue. At that time it is planned to make certain editorial changes as well as any developing from use of the manual.

"It is requested that the 1951 budgets be submitted in accordance with the instructions in the revised manual, with the following exceptions:

1. In view of the limited time that the Banks will have to prepare their 1951 budgets on the revised basis, such budgets may be submitted as soon as possible in October (instead of October 1) after they have been acted upon by the directors, but in any event by November 1.
2. Since heretofore there have been no provisions for reporting or accumulating man-power data, it will not be necessary

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"to show the average number of employees or the number of man hours for the year ended June 30, 1950. Estimates of such data are requested, however, for the budget year.

"Additional copies of the manual are being forwarded to your Bank and Branches, if any, in accordance with your requirements. Revisions of the various forms covered by the manual are now being made. A supply of the revised budget forms will be furnished you as soon as possible, and the other forms will be forwarded before the end of the year.

"The Board is grateful to the Presidents' Conference for their helpful interest in revising the accounting manual, and in particular for the services of its Subcommittee on Accounting."

Approved unanimously.

  
Assistant Secretary.