

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, October 12, 1950. The Board met in the Board Room at 2:30 p.m.

PRESENT: Mr. McCabe, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Norton
 Mr. Powell

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. Vest, General Counsel
 Mr. Nelson, Director, Division of Personnel Administration
 Mr. Young, Director, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Shay, Assistant Counsel
 Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
 Mr. Pawley, Economist, Division of Research and Statistics

Mr. Lewis, Assistant Vice President, Federal Reserve Bank of St. Louis, who was assisting in connection with the administration of Regulation W, Consumer Credit, also was present.

Mr. Evans stated that, in accordance with the understanding at the meeting of October 5, 1950, the staff committee has been studying the terms of Regulation W, Consumer Credit, during the past week, that it had held numerous conferences with members of the trade concerning the effects of broadening the coverage of the Regulation, and that it was prepared to recommend a tightening of the terms of the Reg-

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ulation although it would prefer that no action be taken for another month when it was hoped that more information would be available as to the effects the present terms had had. On the assumption, however, that the Board felt it desirable to tighten terms somewhat at this time, Mr. Evans stated that he was prepared to recommend the adoption of an amendment effective Monday, October 16, 1950, which would provide a uniform maximum maturity of 18 months for Group A (automobiles), Group B (appliances), and Group C (furniture) articles and for unclassified instalment loans, and which would increase the minimum down payment on Group B and C articles to 25 per cent and 20 per cent, respectively. He also recommended that the provision exempting articles costing less than \$100 from the down payment provisions be changed to provide such an exemption for articles costing less than \$50.

Mr. Evans added that considerable study had been given the question whether charge account credit should be brought within the scope of the Regulation and that, while there was no unsurmountable administrative problem, he was inclined to feel that such credit should not be included. If the terms of the Regulation were tightened severely, it might become necessary to include charge accounts as a means of preventing evasion of the Regulation and of answering the charge that the Regulation was discriminatory in its effects upon different classes of credit users, but he did not feel that enough would be accomplished from a credit standpoint by the inclusion of charge accounts to warrant

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bringing them under the Regulation at this time. Furthermore, because of the administrative problems involved, their inclusion would mean some delay in making effective an amendment which would go no further than tighten existing terms.

At Mr. Evans' request, Mr. Lewis stated that the question of including charge accounts had been submitted to the Federal Reserve Banks this week and that nine of the twelve felt such accounts should not now be covered, while three would include them within the scope of the Regulation. He also said that the overwhelming sentiment in the trade was that charge account credit should not be included.

Mr. Lewis expressed the opinion that inclusion of charge accounts would not result in much restriction of the volume of credit extended.

In response to a question from the Chairman, Mr. Young stated that while he did not feel inclusion of charge accounts would curtail the volume of charge account credit much, it might have a psychological effect, especially if such accounts were made subject to the Regulation before the Christmas shopping season. He went on to say that he was disposed towards stricter terms in the Regulation in the light of the growing inflationary pressures.

Chairman McCabe then reported conversations with several large automobile manufacturers within the last few days as well as a con-

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versation with Mr. Symington, Chairman of the National Security Resources Board, who has responsibility for coordination of functions delegated by the Executive Order issued by the President pursuant to the Defense Production Act of 1950, at a meeting last week at which the terms of Regulation W and of Regulation X, Residential Real Estate Credit, were discussed. At that time, he said, Mr. Symington expressed the view that the terms of Regulation W should provide for a minimum down payment of 40 per cent in the case of automobile purchases and a maximum maturity of not more than 15 months, a minimum down payment of 1/3 and maximum maturity of 15 months for appliances, and a minimum down payment of 25 per cent and maximum maturity of 15 months for furniture. During the course of the meeting, the Chairman placed a telephone call for Mr. Symington for the purpose of obtaining his present views but was informed that he was not available. He then talked by telephone with Mr. Keyserling, Chairman of the Council of Economic Advisers, and upon concluding his conversation stated that Mr. Keyserling was inclined toward a maturity of 15 months in the light of existing inflationary pressures, but that he had said he would like to consider the matter further and talk with the Chairman again later today or tomorrow morning.

Mr. Evans stated that he would be willing to go along with the 15 months maturity for automobiles if Mr. Symington would request the Board to provide for such terms in writing.

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Mr. Carpenter stated that before Mr. Eccles left for Chicago today, he stated that he was in favor of tightening the terms of Regulation W and that he would like to see the maximum maturity set at 15 months, especially on Group B and C items. Mr. Carpenter also said that Mr. Vardaman stated at the meeting on October 5 that, while he would be absent from this meeting today, he would vote to approve whatever terms were recommended by Mr. Evans.

During the discussion, Mr. Evans withdrew from the meeting to keep another appointment stating that he would support whatever terms the Board adopted but that it was his recommendation, in view of the study made by the staff and by himself and of the discussion at this meeting, that the maturity at this time should be reduced from 21 months to 18 months on automobiles and that down payments should be as suggested in his recommendation earlier in the meeting.

Chairman McCabe suggested that no vote or action be taken today with respect to the terms but that he be authorized to discuss the matter further with Mr. Symington and Mr. Keyserling, and that there be a further consideration of it at a meeting tomorrow morning.

This suggestion was approved
unanimously.

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:

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 11, 1950, were approved unanimously.

Memorandum dated October 5, 1950, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending that Arad B. Shipp, gardener in that Division, be transferred to the newly established position as general mechanic in that Division, with an increase in his present basic salary from \$3,154 to \$3,300 per annum, effective October 15, 1950.

Approved unanimously.

Memorandum dated October 10, 1950, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending that Mrs. Ileen C. Shepherd, a clerk in the Division of Research and Statistics, be transferred to the Division of Administrative Services, with no change in her title or in her present basic salary of \$3,275 per annum, effective October 15, 1950. The memorandum also stated that Mr. Young was agreeable to this transfer.

Approved unanimously.

Memorandum dated October 10, 1950, from Mr. Marget, Director of the Division of International Finance, recommending the appointment of Miss Foteny Economon as a clerk-stenographer in that Division, with basic salary at the rate of \$2,650 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 October 11, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division effective October 15, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Robert R. Moss	Economist	\$4,975	\$5,100
Murray Altmann	Research Assistant	3,350	3,475
H. Pauline Franklin	Clerk	2,650	2,730
Betty J. Haller	Clerk-Stenographer	2,650	2,730

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"There is quoted below a cable from Mr. John Exter, Governor of the Central Bank of Ceylon, Colombo, Ceylon, to Mr. Dembitz, in which he suggests some slight changes in the compensation and living arrangements previously outlined in our letter to you of September 22 in connection with Mr. G. Harold Snead's proposed assignment to the Central Bank of Ceylon:

'Delighted your letter September twenty five but suggest two variations terms first since Snead subject Ceylon income tax on income from all sources Board should ask Central Bank pay tax second since we prefer Snead and wife live in hotel (simpler for them and very satisfactory) propose Central Bank pay hotel room rental plus ten percent board and room charge to cover tips stop Sample charge Galle Face Hotel fortythree rupees per day double room with meals.'

"If the changes are agreeable with your Bank, we would change the proposed cable to Mr. Exter, which was enclosed in our letter to you of September 22, to read as follows:

'Federal Reserve Bank of Richmond has agreed and Board of Governors has approved loan of G. Harold Snead, Chief Examiner of Richmond Bank, to Central Bank of Ceylon for period not to exceed one year plus travel time. Richmond

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"Bank will continue to pay Snead's salary and will expect Central Bank of Ceylon to reimburse expenses and provide quarters on basis similar to that set forth in Board's letter to you of November 30, 1948, amended to conform to your cable Dembitz October 4 regarding payment of Ceylon income tax by Central Bank and agreement on hotel living arrangements. Mr. Snead would be accompanied by wife only, no children. If these arrangements agreeable to your Bank and if arrangements can be completed in time, he contemplates leaving by sea about November 1."

Approved unanimously.

Letter to The Honorable G. Mantzavinos, Governor, The Bank of Greece, Athens, Greece, reading as follows:

"We are pleased to acknowledge your letter of September 28 regarding a second visit to your country by Mr. Delos C. Johns, Vice President and General Counsel of the Federal Reserve Bank of Kansas City, and to inform you that it will be convenient for Mr. Johns to leave for Greece on or about the first of November. He will be prepared to remain for approximately one month, or possibly somewhat longer should it appear necessary that he do so in order to complete his assignment.

"We propose that the financial arrangements relating to Mr. Johns' forthcoming visit be on the same general basis as prevailed previously. Under this arrangement Mr. Johns would continue on the pay roll of the Federal Reserve Bank of Kansas City, while the Bank of Greece would reimburse the Reserve Bank on account of his transportation and other expenses. The latter would consist of a per diem at the rate of \$15 from the date of Mr. Johns' departure from Kansas City until his return, plus a representational allowance at the rate of \$100 per month.

"Mr. Johns will keep in touch with Mr. Gunter, of the Currency Committee, with regard to the exact date of his arrival, arrangements for living quarters, and similar matters.

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"The Board and the Federal Reserve Bank of Kansas City are pleased to be able to accede to your renewed request for Mr. Johns' services, and we trust that you will feel free to call upon us at any other time when we may be of service."

Approved unanimously.

Letter to Mr. Miles L. Colean, Room 720, Transportation Building, Washington, D. C., reading as follows:

"The Board of Governors of the Federal Reserve System has approved the recommendation of the Division of Research and Statistics that you be engaged on a contractual basis as a consultant in connection with the work for the Board on real estate controls; that the fee be at the rate of \$6.25 per hour (a total of \$50.00 for an 8-hour day) for work for the Board either in Washington or outside this city; that the period within which your services may be requested under current Board authorization extend from October 12, 1950, to no later than December 31, 1950; and that you receive traveling expenses in accordance with the Board's travel regulations applicable to the head or assistant head of a division. For purposes of travel Washington, D. C., will be regarded as your headquarters. The Director of the Division of Research and Statistics has been authorized to request your services when in his opinion they are needed."

Approved unanimously.

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

"A question has been presented as to whether Group D, Part 1 of the Supplement to Regulation W includes paving of city streets and the construction of appurtenant curbs, gutters, and sidewalks, where the cost of the work is financed by special assessments levied by the city against the abutting property pursuant to a statutory procedure therefor.

"Under the State statute in question, the munic-

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"ipal authority is authorized to contract for the work and to provide the time, terms and conditions of payment of the assessments. Such assessments are made a first and prior lien against the property affected and also a personal liability of the owner of such property. The statute provides also that the assessments, which may be levied only after notice and hearing, shall be apportioned among the parcels of abutting property and the owners thereof in accordance with a 'front foot plan', or, where this method is inequitable, then on some different basis so as to produce substantial equality of benefits and burdens.

"In the Board's view the foregoing street improvements in this case do not come within Group D. The facilities involved are essentially improvements of the area or the adjacent land, rather than 'in connection with existing structures' as that language is used in Group D. All of the adjacent property would be affected, whether highly improved or vacant lots. It does not appear that the construction work would necessarily relate more to one piece of property than to another in the area concerned.

"While it is believed that the views herein may well apply in cases of this character that may arise in other States or local areas, the matter is one which may vary widely in certain situations because of differences in local law or custom. Thus, it would appear inadvisable to attempt to lay down a general rule covering all cases."

Approved unanimously.

Telegram to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Your wire re statement of borrower in connection with Regulation X. We feel that words 'under penalties of Regulation X of the Board of Governors of the Federal Reserve System' should be of some advantage in making borrowers more conscious of the necessity for accurate statements and, accordingly, that these words, which are similar to those in income tax returns, will be helpful in the administration and enforcement of the regulation. In any event, however, it seems desirable that forms made available at all the Federal Reserve Banks should

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"be uniform in language. We recognize, of course, that the borrower could modify the form if he so desired in this respect or in any other respect so long as it contains the information required by the regulation."

Approved unanimously.

Letter to Honorable Emanuel Celler, Chairman, Subcommittee on Study of Monopoly Power, Committee on the Judiciary, House of Representatives, Washington 25, D. C., reading as follows:

"The proposed merger of the Brooklyn Trust Company with the Manufacturers Trust Company of New York, to which you refer in your letter of September 20, 1950, was considered by the Board of Governors in connection with the provisions of section 12B (v)(4) of the Federal Reserve Act, as amended, which has since become section 18(c) of the Federal Deposit Insurance Act. That section provides, in part, that:

'No insured bank shall (i) merge or consolidate with an insured State bank under the charter of a State bank or (ii) assume liability to pay any deposits made in another insured 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 or of all parties to the assumption of liabilities, at the time of the shareholders' meetings which authorized the merger or consolidation or at the time of the assumption of liabilities,... unless the Board of Governors of the Federal Reserve System gives prior written consent if the assuming or resulting bank is to be a State member bank....'

"The Manufacturers Trust Company now has capital \$45,000,000 and surplus \$60,000,000 and the Brooklyn Trust Company has capital \$8,200,000 and surplus \$6,000,000. The merger is to be effected under the name of the Manufacturers Trust Company and the continuing institution is to have \$50,390,000 capital and \$69,440,000 surplus. Therefore, the capital stock of the continuing institu-

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tion will be less than the aggregate capital stock of the merging banks, although its surplus will be greater than the aggregate surplus of the merging banks and its combined capital and surplus will exceed the present aggregate capital and surplus of the merging banks. In the circumstances, the written consent of the Board of Governors was requested and it was granted August 31, 1950.

"The increase in capital stock of the Manufacturers Trust Company is to be effected through a stock dividend of \$3,750,000 to be paid to holders of record prior to the merger (187,500 shares, par \$20) and the issuance of 82,000 shares (\$1,640,000 par value) to be exchanged for stock of the Brooklyn Trust Company. Each of the 82,000 shares of Brooklyn Trust Company stock outstanding is to be surrendered for cancellation in return for \$183 in cash and one share of Manufacturers Trust Company stock. The management of Manufacturers Trust Company chose to request the written consent of the Board of Governors to merge as proposed rather than further increase capital stock by \$2,810,000 par value. Had capital stock been so increased the consent of the Board of Governors would not have been required.

"Although the specific question which the Board was required to consider under section 12B (v)(4) of the Federal Reserve Act (now section 18 (c) of the Federal Deposit Insurance Act) was whether the merger should be permitted without an increase in the capital stock of Manufacturers Trust Company to an amount equal to the combined capital of that institution and Brooklyn Trust Company prior to the merger, consideration also was given to collateral matters and implications, including the effect of the proposed transaction upon the Manufacturers Trust Company and upon the competitive situation.

"There appeared to be no reason to object to the proposed merger from the standpoint of asset condition, adequacy of capital, and competency of management. According to statements submitted as of June 30, 1950, the Manufacturers Trust Company had total resources of \$2,271,800,000 and the Brooklyn Trust Company \$244,070,000. The total resources of the resulting institution would be large but not proportionately much larger than the present principal unit and not disproportionate as compared with other institutions with which it would compete in the Borough of Manhattan and the Borough of Brooklyn. It did

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"not appear that the proposed transaction would tend to create a monopoly.

"Polk's Bankers Directory for March 1950 (latest available, although there have been a few changes since it was issued) shows three national banks and twenty-seven State chartered banks and trust companies, other than the Brooklyn Trust Company, having their head offices in the Borough of Brooklyn and operating 38 branches most, but not all, of which are located in Brooklyn. The total resources of these banks amounted to \$3,725,085,000 of which the bulk (\$3,511,526,000) was represented by 21 savings banks. In addition, the Borough of Brooklyn was served by 70 branches of banks and trust companies having head offices in the Borough of Manhattan, including 21 branches maintained by the Manufacturers Trust Company. The banks having head offices in Manhattan and operating branches in Brooklyn were 13 in number and included some of the city's largest, such as the National City Bank with 16 branches in Brooklyn.

"Although this transaction did not appear to be one which would tend to create a monopoly, it seems desirable to mention again that the Board's authority in the matter existed only because of the fact that the management of the Manufacturers Trust Company preferred to seek the Board's consent rather than issue additional capital stock. As indicated above, the Board's consent was required here under section 12B (v)(4) of the Federal Reserve Act (now section 18(c) of the Federal Deposit Insurance Act) only because of the fact that, although the capital and surplus of Manufacturers Trust Company after the merger will be larger than the capital and surplus of that institution and Brooklyn Trust Company before the merger, the capital of Manufacturers Trust Company after the merger will be somewhat smaller than the capital of the two institutions before the merger. In other words, the Board would have no authority in the matter except for that difference in capital.

"This fact would seem to be of interest because it calls attention to a weakness in section 7 of the Clayton Act, a provision for which this Board has responsibility for enforcing compliance where applicable to banks. As you know, section 7 in effect forbids one corporation to acquire the capital stock of another corporation engaged in commerce if the effect may be to lessen competition or tend to create a monopoly. However, the section does not

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"apply to the acquisition of assets.

"H. R. 2734 which passed the House of Representatives on August 15, 1949, and is now pending in the Senate, would broaden section 7 of the Clayton Act so that it would also apply to acquisitions of assets -- but only in the case of corporations that are subject to the jurisdiction of the Federal Trade Commission. It is understood that, with the exception of this Board, all the other agencies having responsibility for enforcing compliance with section 7 of the Clayton Act already have general authority, under other provisions of law, over acquisitions of assets in the case of persons for whom they have enforcement responsibility in connection with section 7. However, even with the enactment of H. R. 2734, section 7 would continue to be confined to acquisitions of capital stock in so far as banks are concerned."

Approved unanimously.

Letter for the signature of the Chairman, to Mr. L. M. Giannini, President, Bank of America National Trust and Savings Association, San Francisco 20, California, reading as follows:

"This will acknowledge receipt of your letter of September 28, 1950, reiterating your request for answers to the questions contained in your letter of July 11th.

"You were advised in reply to your letter of July 11th that because the matters referred to in it are concerned with the subject of pending litigation, the Board did not believe that any useful purpose would be served by a present exchange of correspondence dealing with these matters. The litigation, as you know, is still pending and therefore the Board sees no reason to alter the position taken in its previous letter."

Approved unanimously.

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

"In continuance of the established practice, there

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"is enclosed a copy of the worksheet (F. R. 456) for use in compiling member bank operating ratios for 1950. A supply of these worksheets is being sent under separate cover to the Reserve Banks that use this form.

"The worksheet is the same as that used for 1949 except for a few minor technical changes: (1) Space has been provided for the totals of the non-additive ratios; these totals, which were entered in the margin of the 1949 worksheet, facilitate machine tabulations. (2) The calculation of actual net losses on loans in the memorandum section has been simplified and space has been provided for including balances in valuation reserves at the beginning and end of the period. (3) Decimal subdivisions of the item numbers have been substituted for alphabetical subdivisions. (4) The size of the form has been reduced slightly. These changes have been cleared with the President's Conference Subcommittee on Member Bank Operating Ratios.

"It will be noted that provision has been made in Section A for the use of figures from the fall call reports. This is in accordance with the established practice of using figures from the fall call when they are available, instead of the end-of-the-year call to make possible early publication of the ratios.

"The procedure followed last year should be observed in submitting this information to the Board after the completion of the tabulations made at your Bank."

Approved with the understanding
that the letter would be sent when
the worksheets have been printed.

Memorandum dated October 6, 1950, from Mr. Chase, Assistant Solicitor, recommending that Dr. E. A. Goldenweiser, consultant to the Board, be reimbursed at the rate of \$50 per day for two working days spent with him at his home preparing him to take the stand in rebuttal of economists' testimony in the Clayton Act proceeding against Transamerica Corporation, and that the Board approve an arrangement under which Dr. Goldenweiser would be compensated at the

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rate of \$50 a day for attendance, as outlined in the memorandum, at the Clayton Act proceeding when it reconvenes in Washington on October 16, 1950 with the understanding that he would be allowed necessary transportation expenses and a per diem in lieu of subsistence of \$9 in accordance with the Board's official travel regulations applicable to heads of divisions, together with such supplemental allowance for other expenses as may be approved by the available members of the Personnel Committee.

Approved unanimously.

Memorandum dated October 12, 1950, from Mr. Marget, Director of the Division of International Finance, recommending that the services of Lewis N. Dembitz, Assistant Director of the Division of International Finance, be made available to the State Department in order that he might serve as principal adviser on German debt problems to the United States delegation scheduled to begin consultations with British and French representatives in London on October 24 regarding German economic problems and other matters referred to them by the French and British foreign ministers and the United States Secretary of State, with the understanding that the Board would continue to pay Mr. Dembitz's salary for the period of the loan and that the State Department would assume responsibility for all travel, per diem, and other expenses incident to the mission. The memorandum also stated that it was expected that Mr. Dembitz would be away from the

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Board from about the middle of October to the middle of December.

Approved unanimously.


Secretary.