

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 1, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Evans  
Mr. Vardaman  
Mr. Norton  
Mr. Powell

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 31, 1950, were approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the payment of a fee to Mr. Roy Wenzlick, President of Roy Wenzlick and Company, St. Louis, Missouri, while acting as a part-time consultant for the Federal Reserve Bank of St. Louis in connection with the administration of Regulation X, at the rate of \$50.00 per day or any part thereof, as requested in your letter of October 26, 1950."

Approved unanimously.

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

"This refers to your letters of September 15 and October 26, 1950, concerning the proposed purchase by your Bank of the 'Palmieri Lot' in Richmond.

"The Board has considered the matter and will interpose no objection to the purchase of this property at a price of approximately \$152,500, which includes not more than \$2,500 for a small building on the lot."

Approved unanimously.

11/1/50

-2-

Letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Thank you for your letter of October 19, 1950, concerning the delay in completing the Seattle Branch building. It is noted that a public open house is expected to be held on January 13, with a preview reception and dinner on January 12.

"The Board appreciates very much your invitation, and would like if possible to have representatives attend the opening ceremonies."

Approved unanimously.

Letter to Mr. Diercks, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of October 4, 1950, submitting the request of the Traverse City State Bank, Traverse City, Michigan, for permission to establish a branch at Suttons Bay, Michigan, in connection with a proposed merger with The State Bank of Suttons Bay, Suttons Bay, Michigan, a nonmember insured bank.

"In view of your recommendation, the Board approves the establishment and operation of a branch at Suttons Bay, Michigan, by the Traverse City State Bank, provided the merger with The State Bank of Suttons Bay is effected substantially as proposed, the prior approval of the appropriate State authorities is obtained, and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the merger and establish the branch.

"It is noted that the capital stock and surplus of the resulting bank will be less than the aggregate capital stock and aggregate surplus of the merging banks at the time of the shareholders' meetings which authorize the merger. However, in view of the fact that the Traverse City State Bank recently declared a stock dividend and sold new common stock in anticipation of the merger, the Board feels justified in giving prior written consent to the merger as provided under Section 18(c) of the Federal Deposit Insurance Act.

11/1/50

-3-

"A letter in which the Board gives written consent to the merger as provided under Section 18(c) of the Federal Deposit Insurance Act is enclosed for transmittal to the directors of the Traverse City State Bank prior to consummation of the merger."

Approved unanimously, together with a letter to the Traverse City State Bank, Traverse City, Michigan, as follows:

"In a letter dated October 4, 1950, Vice President Diercks of the Federal Reserve Bank of Chicago submitted to the Board of Governors the request of the Traverse City State Bank, Traverse City, Michigan, for approval of a merger with The State Bank of Suttons Bay, Suttons Bay, Michigan, under the title and charter of the former, and the establishment of an out-of-town branch at Suttons Bay.

"Under the provisions of Section 18(c) of the Federal Deposit Insurance Act no State member bank shall merge or consolidate with an insured State bank under the charter of a State bank if the capital stock or surplus of the resulting bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks, at the time of the shareholders' meetings which authorized the merger or consolidation, 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.

"In considering your request it was noted that both the capital stock and surplus of the resulting bank under the proposed plan of merger would be less than the aggregate capital stock and aggregate surplus of the merging banks at the time of the shareholders' meetings which authorized the merger. However, it was also noted that, in anticipation of the merger, the capital stock and surplus of the Traverse City State Bank was increased by the sale of \$100,000 par value of new common stock at \$125,000 and that a stock dividend of \$100,000 was declared simultaneously, payable \$50,000 from surplus and \$50,000 from undivided profits.

11/1/50

-4-

"Since the net result of all the steps taken to effectuate the merger will be to add approximately \$80,000 to the capital funds of the Traverse City State Bank, which increase exceeds the total capital funds of The State Bank of Suttons Bay, the Board of Governors gives its prior written consent to the merger under the provisions of Section 18(c) of the Federal Deposit Insurance Act."

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

"Board has considered questions regarding the use of a rubber stamp notation as a means of complying with the requirements of section 4(d) of Regulation W relating to the Statement of Borrower.

"Under section 4(d) a rubber stamp may be used to set out the appropriate facts for a Statement of the Borrower if the notation is placed on an appropriate document prior to the borrower's signature and in such manner and form as to make it clear, either by the borrower's signing in a space provided in the rubber stamp notation or by some other method, that the borrower's signature is in fact intended by him to relate to the facts stated in the notation. Of course, a rubber stamp notation would not meet the requirements of section 4(d) if the language of the notation is indefinite in relation to the borrower's signature, or if it is unclear for any other reason whether the borrower actually intended his signature to relate to a statement regarding the purpose of the loan."

Approved unanimously.

Letter to Mr. Samuel Dunckel, Managing Director, The Institute of Cooking and Heating Appliance Manufacturers, The Shoreham Hotel, Washington 8, D. C., reading as follows:

"You inquired in your letter of October 17, addressed to Mr. Pawley, whether floor furnaces are to be considered space heaters for purposes of Regulation W.

11/1/50

-5-

"It is the Board's view that floor furnaces are not included in the classification space heaters because they are not designed to heat directly the space in which they are located. Accordingly, floor furnaces are included in the articles listed in Group D of Part 1 of the Supplement to Regulation W."

Approved unanimously.

Letter for the signature of the Chairman to Mr. Rowland Jones, Jr., President, American Retail Federation, 1627 K Street, N. W., Washington 6, D. C., reading as follows:

"I want to thank you for your letter of October 23 and your assurance of full cooperation in the difficult tasks that confront our nation in the present defense effort.

"It is a source of real satisfaction to me, personally, and I am sure to all of the members of the Board, to have had this cooperative relationship with your organization, and I sincerely hope it will be in no way marred because of policy actions which the Board feels compelled to take in the light of its particular responsibilities. I appreciate your problems just as I think you do ours. I assure you that the Board has great regard for the views of your organization and always endeavors to give them the fullest consideration.

"While I will not undertake in the necessarily brief compass of a letter to go over again the compelling reasons which led the Board to its recent decision with respect to Regulation W, I do want to emphasize that the Board undertook to take into account very carefully and painstakingly every conceivable relevant aspect of this difficult and unpleasant task with respect to the regulation. The continuing information we received from the Federal Reserve Banks and other sources in all parts of the country forced us to the conclusion that we could not, in the public interest, postpone the amendment tightening the terms.

"I want to reiterate for myself and all of my associates that we greatly value the cooperation which

11/1/50

-6-

"has existed and I am sure will continue to exist with you and your organization in endeavoring to carry out Governmental policies, the objectives of which are as earnestly desired by you as they are by us."

Approved unanimously.

Letter to Mr. F. M. Wrightson, President, Provident Savings Bank, Baltimore, Maryland, reading as follows:

"This refers to your letter of October 19, 1950, to Governor Evans, concerning the Board's ruling with respect to the application of Regulation X where residential property is sold subject to ground rent.

"The Maryland ground rent system presents peculiar problems and we realize there may be differences of opinion concerning the manner in which restrictions upon credit should be applied in connection with sales of property subject to ground rent. However, we believe that the Board's ruling correctly construes the pertinent provisions of Regulation X, and that, in practical effect, the ruling is fair and consistent with the purposes of the regulation. Also, it is our understanding that it is consistent with the practices of the Federal Housing Administration in the past and under the regulations currently in effect.

"Section 602(d)(2) of the Defense Production Act of 1950 and section 2(c) of Regulation X define the term 'credit' to include any lease under which the lessee has the option of becoming the owner of the leased property. In defining the term 'bona fide sale price', the second sentence of section 2(j) of Regulation X provides that the bona fide sale price of any property shall include the unpaid principal amount of any indebtedness to which the property remains subject after the sale. We believe that it is a reasonable interpretation of these provisions that where property is sold under the Maryland ground rent system, the capitalization of the ground rent should be regarded as outstanding credit with respect to the property and that it should be included in the bona fide sale price of the property.



11/1/50

-7-

"The effect of the Board's ruling is to require that the purchaser of property make the same cash down payment irrespective of whether he acquires the property in fee simple or subject to ground rent. If, as you suggest, the ground rent were disregarded, the purchaser could acquire the property under the ground rent system with a considerably smaller down payment, despite the fact that he would be accomplishing substantially the same end as though he purchased the property in fee simple, subject to a first mortgage equal to the capitalization of the ground rent. We are cognizant, of course, of the legal differences between a ground rent lease and a mortgage and the fact that the lessee is not obligated to redeem the ground rent, but we do not believe that these differences are significant in connection with restrictions upon the amount of credit which may be extended with respect to residential property. Instead of penalizing persons purchasing property subject to ground rent, it seems to us that the Board's ruling avoids discrimination between sales in fee simple and sales subject to ground rent, and that the contrary position would encourage the use of ground rent leases in Maryland, and the further development of similar arrangements elsewhere, for the purpose of minimizing the effect of Regulation X.

"We do not wish to prevent the use of ground rent leases in Maryland or otherwise to interfere unnecessarily with established business practices. With this in mind, the Board has stated that because of the peculiar nature of ground rents, and the fact that the period of payment of such rents is indefinite, the maturity and amortization provisions in the Supplement to Regulation X will not be deemed to be applicable to ground rent leases entered into in good faith.

"We are glad that you wrote to us concerning this matter and we hope that this explanation may give you a better understanding of our views."

Approved unanimously.

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

"We have reviewed the application of Radcliff Homes, Inc., for an exemption from Regulation X. The telegram

11/1/50

-8-

"sent to the Presidents of all Federal Reserve Banks on October 19, 1950, sets forth the views of the Board on the general question and should answer most of the questions in this specific case. The evidence submitted does not appear to us sufficient to justify exemption under either section 5(g) or 6(b)(2), although the deponent may be able to obtain further evidence which might justify exemption.

"The applicant claims exemption under the hardship clause, stating that he is unable to obtain credit 'on the basis contemplated by him'. Section 5(g), however, states 'on the basis contemplated by him and the Registrant'. The letter from The Dime Savings Bank of Brooklyn fails to specify that the borrower and the lender both contemplated the same basis for credit. If the applicant could establish this point, there would seem to be sufficient grounds for exemption. Certainly he had made substantial commitments or undertakings before August 3.

"It is possible that he could make a stronger case for exemption under section 6(b)(2) if he could give more complete proof than is contained in the letter from The Dime Savings Bank that a 'firm commitment' had been made.

"I hope that this will be of some help to you in making a decision on this case. Apparently the number of hardship cases is not yet a pressing problem, but we hope you will keep us informed as to further developments."

Approved unanimously.

Letter to Honorable Harry B. Mitchell, Chairman, United States Civil Service Commission, Washington 25, D. C., reading as follows:

"This refers to your letter of October 13, 1950 addressed to Chairman McCabe regarding the necessity for prompt and factual reports from agencies to the Civil Service Commission concerning the separation of employees for reasons that might be disqualifying for further Federal employment and requesting the Board of Governors to report to the Civil Service Commission all personnel actions which involve removals for cause, resignation while charges are pending, or other separations under circumstances which reflect upon the employee's suitability for reemployment.



11/1/50

-9-

"The Board of Governors is in complete agreement with the objectives referred to in your letter and you may be assured of our full cooperation in this matter. Henceforth, whenever any personnel actions involving removals for cause, resignation while charges are pending, or other separations under circumstances contemplated in your letter which reflect upon the employee's suitability for reemployment occur at the Board, your Commission will be notified promptly of the facts pertaining to each case."

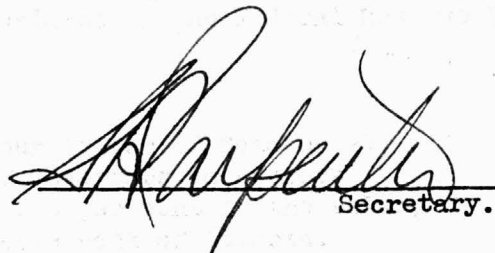
Approved unanimously.

Letter to The Honorable, The Comptroller of the Currency, Treasury Department, Washington 25, D. C., reading as follows:

"This refers to our letter of July 28, 1950, requesting that a supplemental order for printing 5,000,000 sheets of Federal Reserve notes of the 1934 series during the fiscal year ending June 30, 1951, be placed with the Bureau of Engraving and Printing. It is respectfully requested that 200,000 sheets of this total be allocated to notes of the Federal Reserve Bank of Kansas City, as shown below:

<u>Denomination</u>	<u>Number of sheets</u>	<u>Amount</u>
\$5	200,000	\$12,000,000"

Approved unanimously.

  
Secretary.