

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 10, 1951.

PRESENT: Mr. McCabe, Chairman
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 January 9, 1951, were approved unanimously.

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

"In accordance with the request contained in your letter of January 4, 1951, the Board approves the designation of the following individuals as special assistant examiners for the Federal Reserve Bank of Atlanta:

Joe Edward Cobb
Travis Wilson."

Approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Re Diercks' letter January 2 as to whether Matthew J. Hickey, Jr., President and Director of Hickey & Co., would be prohibited by section 32 of the Banking Act of 1933 from serving the Chicago National Bank as a director. On basis of facts contained in Diercks' letter, and in line with previous rulings of the Board on this subject, Board sees no reason to disagree with opinion of Counsel for your bank that the proposed service would be prohibited."

Approved unanimously.

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Letter to Honorable I. W. Duggan, Governor, Farm Credit Administration, U. S. Department of Agriculture, Washington 25, D. C., reading as follows:

"This is in response to your letter of December 27, 1950, in which you requested the Board's interpretation as to the application of Regulation X to the following factual situation:

'An applicant requests a loan of \$2,000 to pay part of the cost of completing the construction of a farm residence started after October 12, 1950. The loan is to be set up for complete repayment within one year from farm income. However, the Statement of the Borrower discloses that he has obtained elsewhere \$10,000 credit for part of the cost of construction; and the maximum loan value of the residence, determined pursuant to the Regulation, is \$11,500.'

"The Board considers that Regulation X does not apply to the loan of \$2,000 for construction of the farm residence since it is short-term construction credit under the provisions of the first sentence of section 5(b) of the regulation."

Approved unanimously.

Letter to Honorable Frederick J. Lawton, Director, Bureau of the Budget, Washington 25, D. C., reading as follows:

"The Board of Governors proposes to recommend to the Congress an amendment to the Assignment of Claims Act of 1940 for the purpose of removing a serious obstacle to the successful administration of the current guaranteed loan program for financing defense contractors authorized by section 301 of the Defense Production Act of 1950 and the President's Executive Order No. 10161.

"Many banks are unwilling to make loans to defense production contractors on the security of assignments of monies to become due under Government contracts because of apprehension lest payments received from the Government by the assignee bank may subsequently be recovered by the Government on account of other indebtednesses of

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"the contractor to the Government. The proposed amendment is intended to clarify the rights of lending banks taking such assignments of claims and thereby to encourage maximum participation by private financing institutions in the defense production program. There is enclosed a draft of the proposed amendment, together with an explanatory statement.

"This matter has been the subject of discussion by the Board with representatives of the Department of Defense and the other guaranteeing agencies involved in the current guaranteed loan program and also with representatives of the American Bankers Association. Members of the Board's staff have also discussed the matter from time to time with representatives of your Bureau.

"The matter is one of vital importance to the defense program and the Board feels strongly that an appropriate amendment to the Assignment of Claims Act of 1940 is urgently required. Accordingly, we will appreciate being advised as promptly as possible whether there is any objection on the part of the Bureau of the Budget to the submission by the Board of this recommendation to the Congress."

Approved unanimously.

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

"In order that the Federal Reserve Banks may proceed with the printing of Identification Certificates for the Regulation X investigators, there is enclosed a text which has been approved by the Board. In the interest of uniformity it is deemed advisable that the same text be used by all of the Reserve Banks. However, the seal of the issuing Bank may or may not be shadow printed on the certificate as desired, and the Board would have no objection to appending to the certificate the photograph of the investigator. Also, the exact size of the certificate is left to the discretion of the issuing Bank."

Approved unanimously.

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

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"One of the more difficult problems in connection with the enforcement program for Regulation X is the determination of the compliance of insurance companies with the Regulation. As you undoubtedly know, insurance companies are examined by State supervisory agencies usually not oftener than once every two years and, quite frequently, examinations may occur only once in 3 to 5 year periods. Hence the supervisory agencies normally authorized to examine insurance companies may be unable to ascertain compliance with Regulation X except at such infrequent intervals that enforcement is largely nullified.

"It is essential, therefore, that the extent of the compliance of the insurance companies with Regulation X be ascertained through the investigational activities of the Federal Reserve banks, since it seems probable that no other reliable measure of the compliance of insurance companies will be currently available. Some of the Reserve Banks have already made arrangements with State insurance commissioners for the purpose of investigating insurance companies. It is necessary in the interest of adequate enforcement that a uniform policy be observed in such investigations. As a consequence conferences have been held with representatives of the National Association of Insurance Commissioners, for the purpose of adopting a policy of investigation which would be mutually satisfactory.

"The discussions of the subject were held with the Liaison Committee of the National Association at its Mid-Winter Conference on December 13th, 1950, in Los Angeles. The Liaison Committee is empowered to administer the relations between the various zones established by the National Association of Insurance Commissioners throughout the country and has agreed to approve the following steps of an investigative procedure:

1. When a Reserve bank decides to investigate an insurance company, it should notify (a) the State Commissioner of Insurance within whose State the insurance company is located, and (b) the N.A.I.C. zone chairman whose name appears on pages 31 and 32 of the enclosed booklet of the National Association of Insurance Commissioners. The purpose of this notification is to obtain the concurrence of the State Commissioner in the proposed investigation, and to ascertain current information which he may possess resulting from a possible recent examination or other

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"sources of information. It is also desirable not to conflict with any arrangements for examinations about which he may have made a decision.

2. It was agreed that the State Commissioner should be given the opportunity to have one of his examiners accompany the investigators for the Reserve Bank.

3. A copy of the investigation report after completion should be forwarded to the State Commissioner.

"It will be noted, if reference is made to pages 31 and 32 of the enclosed booklet, that the entire United States is divided into so-called N.A.I.C. zones and that each zone comprises a number of states. Each of the states comprising a zone elects a zone chairman and the Liaison Committee of the Association expressed the conviction that it was important from the standpoint of its own administration that the zone chairman be notified prior to the start of an investigation.

"W. Ellery Alley, Commissioner of Insurance of the State of Connecticut, who is President of the N.A.I.C. has given assurances of full cooperation of the National Association with the enforcement program. In his address to the Conference, which included 600 representatives of insurance companies, he stated that he had previously attended a meeting at the Federal Reserve Building in Washington for the discussion of Regulation X and the enforcement program, and informed the Conference of Insurance Commissioners that the Board of Governors should have the wholehearted cooperation of the Insurance Commissioners in the enforcement of Regulation X.

"It is quite probable that the above suggested program will not conflict with previous arrangements made by Federal Reserve banks with Insurance Commissioners. However, the Board would like the Federal Reserve banks to comment on this program, and if there are suggestions for a different procedure, would appreciate receiving them.

"In addition to the copy of the N.A.I.C. booklet, there is also enclosed a copy of an address made to the Conference on Regulation X."

Approved unanimously.

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

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"One of the Federal Reserve Banks brought to our attention a request received by it from the National Retail Credit Association that the latter be permitted to form a small committee of members in that district to act as liaison for the association in discussing matters relating to Regulation W with the Reserve Bank. We checked with two of the other Reserve Banks and found that they have received similar requests and it is assumed that these have been directed to all Reserve Banks. For your information the consensus is that this should be discouraged, among other reasons, because those with whom it was discussed were of the opinion that creation of such a committee would remove the close personal relationship enjoyed with individual members of the association and more important that if the Reserve Banks were to agree to such an arrangement many of the national organizations may make similar requests."

Approved unanimously.

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

"This refers to Mr. Stotesbery's letter of December 8, 1950, addressed to you, requesting advice as to whether anything in the plan proposed by Bank Shares Incorporated for the issuance of employees' fund certificates and corporate notes would be objectionable on the part of the Federal Reserve authorities.

"The Board understands that national bank examiners have called attention to violations of section 22(e) of the Federal Reserve Act by certain subsidiary national banks of Bank Shares Incorporated through the payment of larger interest on savings deposits of their employees than is paid the general public. In lieu of these deposits and to encourage thrift among the banks' employees, the holding company proposes to issue employees' fund certificates and corporate notes. This would appear to correct the violation of section 22 but might result in the violation of section 21 of the Banking Act of 1933, which, among other things, prohibits the receipt of deposits by non-banking corporations.

"As the Board has repeatedly stated, the provisions of section 21 are penal in nature, and an expression of

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"opinion by the Board on questions which may arise under this statute or which are affected by its provisions would afford no protection from prosecution if the Department of Justice upon consideration of the matter should take the position that a corporation had violated the statute and should feel it necessary to prosecute for such violation. (See F.R.L.S #7560 and #7562.)

"Although it would be inappropriate for the Board to express an opinion as to whether the issuance of these certificates and notes to employees of the subsidiary banks would violate section 21 of the Banking Act of 1933, if a subsequent report of examination of the holding company affiliate indicated the issuance of certificates or notes under these circumstances, the Board would consider it a dereliction of duty not to report the matter to the Attorney General as a possible violation.

"It will be appreciated if you will advise Mr. Stotesbery accordingly."

Approved unanimously.

Telegram to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reurlet January 6 regarding practice of certain member banks in amending agreements as to time deposit accounts now subject to withdrawal upon 30 days' notice and bearing interest at 1 per cent to provide for 90 days' notice of withdrawal and interest at 1-1/4 per cent. Since such amendment makes deposits subject to more severe restriction as to withdrawal and does not result in payment to depositor, Board feels that practice does not constitute payment before maturity in violation of Regulation Q and that interest may properly be paid from date of amendment at rate permitted by Supplement to Regulation Q for deposits payable upon written notice of less than 6 months and not less than 90 days."

Approved unanimously.

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Telegram to Mr. Swan, Assistant Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

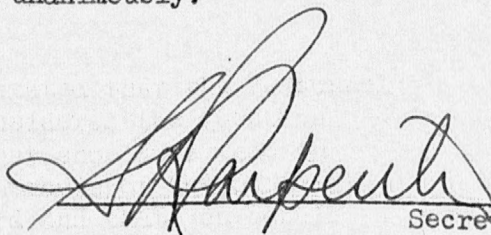
"Reurtel December 11, 1950, and O'Kane's letter of January 4, inquiring whether outstanding street assessment bond with unpaid balance of \$1,100 to be paid annually over a period of 10 years is to be included in 'bona fide sale price' under section 2(j) of Regulation X, and also whether it is to be considered as a 'credit outstanding' for purpose of section 4(a). The answer is yes in both instances, thus permitting extension of credit in amount of \$11,075."

Approved unanimously.

Letter to Mr. Laning, Vice President and Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of December 28, 1950, with which you submitted budget figures making provision for estimated expenses incident to activities under Regulations V and X at your head office and branches for the year 1951. Appropriate notations with regard thereto are being made in the Board's records."

Approved unanimously.


Secretary.