

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 21, 1951.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Vardaman
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 March 19, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 20, 1951, were approved and the actions recorded thereon were ratified unanimously.

Memorandum dated March 20, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of Abner Thompson, a cafeteria laborer in that Division, be extended on a temporary indefinite basis effective March 22, 1951, with no change in his present basic salary at the rate of \$2,252 per annum.

Approved unanimously.

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

"In accordance with the request contained in your letter of March 15, 1951, the Board approves the appointment of James T. Morrice as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"Reference is made to your letter of March 16, 1951, submitting for consideration of the Board of Governors a proposal of the Bar Harbor Banking and Trust Company, Bar Harbor, Maine, to remove its branch office located on Main Street, Southwest Harbor, Maine, to more desirable quarters in a new building on Main Street, about 150 feet from the present location.

"On the basis of the facts submitted, the Board concurs in your opinion that the proposed change of location does not constitute the establishment of a branch within the meaning of Section 9 of the Federal Reserve Act, and, therefore, the Board's approval is not required."

Approved unanimously.

Letter to The Victoria National Bank, Victoria, Texas, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, and registrar of stocks and bonds, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for transmittal through the Federal Reserve Bank of Dallas.

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Letter to Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, Washington 25, D. C., reading as follows:

"Reference is made to your letter of March 12, 1951, concerning the application of the Jefferson-Gravois Bank of St. Louis, St. Louis, Missouri, for continuation of insurance after withdrawal from membership in the Federal Reserve System.

"No corrective programs have been urged upon the bank, or agreed to by it, in connection with which the Board of Governors would consider it desirable to incorporate conditions with respect to continuance of insurance except to the extent that you may wish to require definite action or commitment regarding adequacy of capital and conservative credit policies.

"On December 30, 1949, control of this bank was acquired by the Industrial Bancshares Corporation. When last examined by the Reserve Bank as of November 20, 1950, the bank's loan account had been greatly expanded and, while there had been no change in the bank's active management, it appeared that its policies had become much more liberal and aggressive. This trend was discussed with the directors with particular emphasis on the relatively low capital ratios of the bank. The Reserve Bank was assured that the directors intended to maintain cash, Government securities and high grade municipals aggregating an amount in excess of demand deposits and to build up capital to an amount equal to the national average within five years. To this end it was stated that capital would be increased through conservation of earnings by not less than \$50,000 each year, which the Reserve Bank accepted as a minimum, with the understanding that all earnings, above dividends at the current rate, would be conserved."

Approved unanimously.

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

"The Board of Governors has amended its Regulation A, effective as of the date of this letter, by changing the last sentence of subsection (h) of section 1 thereof to read as follows:

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"The requirement of this section that a note be negotiable shall not be applicable with respect to any note evidencing a loan which is made pursuant to a commodity loan program of the Commodity Credit Corporation and which is subject to a commitment to purchase by the Commodity Credit Corporation or with respect to any note evidencing a loan which is in whole or in part the subject of a guarantee or commitment made pursuant to section 301 of the Defense Production Act of 1950."

"Only the language of the last clause of the sentence is new. As you will recall, similar language exempting V-loan paper from the negotiability requirement of the regulation was incorporated in the regulation during the previous V-loan program of World War II, but was eliminated by an amendment to the regulation in 1949. The purpose of the present amendment is to restore that provision in order to facilitate operations under the current V-loan program.

"It is anticipated that question may be raised in connection with this amendment whether a note evidencing a guaranteed loan which is otherwise eligible for discount is rendered ineligible by the fact that it is issued under a revolving fund arrangement whereby the financing institution is obligated to extend credit up to a specified maximum amount over a specified period of months or years. As was stated by the Board when a similar question was raised during the previous V-loan program, the commitment of the financing institution in such cases does not affect the Federal Reserve Bank and, assuming that the discounting Reserve Bank will have no obligation to renew or extend at maturity a 90-day note issued under such a revolving credit, the Federal Reserve Bank would be legally entitled to require payment at the end of the 90-day period. Accordingly, in the Board's opinion the fact that a note evidencing a guaranteed loan may be part of such a revolving fund arrangement does not prevent it from being eligible for discount or as security for an advance under section 13 of the Federal Reserve Act.

"It will be appreciated if your Bank will have the necessary copies of the amendment printed for distribution in your District."

Approved unanimously, together
with the following statement for publica-
tion in the Federal Register:

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"(a) The purpose of this amendment is to facilitate the program of guaranteed loans authorized by section 301 of the Defense Production Act of 1950, by exempting notes evidencing guaranteed loans from the requirements of this part that a note be negotiable in order to be eligible for discount or as security for advances by Federal Reserve Banks to member banks.

"(b) The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found as stated in § 262.2(e) of the Board's Rules of Procedure (Part 262), and especially because in connection with this amendment which relieves certain restrictions such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

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

"There is enclosed for your information a copy of a statement which will be published in the Federal Reserve Bulletin in response to requests for a ruling on the question whether, in the periodic valuation of assets in a Common Trust Fund operated in accordance with Section 17(c) of Regulation F, it is permissible to value the new investment series of nonmarketable 2-3/4% Treasury Bonds at par value.

"Will you please arrange to furnish immediate advice of this ruling to each bank in your district operating a Common Trust Fund."

Approved unanimously, together
with the statement as follows:

"Valuation of Nonmarketable
Direct Obligations of the United States
in Common Trust Funds

"The recent Treasury Department announcement re-
garding a new investment series of 2-3/4% Treasury Bonds

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"which will be offered March 26, 1951, in exchange for outstanding 2-1/2% Treasury Bonds of June 15 and December 15, 1967-72, has given cause to inquiries concerning the question whether, in the periodic valuation of assets in a Common Trust Fund operated in accordance with the provisions of Section 17(c) of the Board's Regulation F, it would be permissible to value the new nonmarketable 2-3/4% Treasury Bonds at par value or whether such bonds should be valued at the market value of the 5 year 1-1/2% Treasury Notes for which they will be exchangeable.

"In a statement published in the Federal Reserve Bulletin for April 1948 at page 397, regarding a similar inquiry relating to the valuation of Series G United States Savings Bonds, reference was made to the fact that Regulation F does not undertake to prescribe any precise basis or method of valuation and that the only provision of the Regulation which is pertinent to this matter is the requirement, contained in Section 17(c)(1), that the written Plan for the operation of a Common Trust Fund shall include, among other things, provisions relating to the basis and method of valuing the assets in the Fund.

"Accordingly, Regulation F does not prohibit the valuing of Series G United States Savings Bonds, or other nonmarketable direct obligations of the United States, at par value in the periodic valuation of assets in a Common Trust Fund, and such action is permissible if it is consistent with the terms of the written Plan governing the Common Trust Fund and with applicable State law."

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

"The increases in commercial and industrial loans since June 1950 and the inauguration of the Voluntary Credit Restraint Program have accentuated the need for current information, such as that obtained in the special survey in November, regarding the industrial classification and purpose of the wide variety of loans included in this category.

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"The Voluntary Credit Restraint Committee has indicated its need for this information to aid in evaluating the progress of its program and to indicate the areas in which particular problems exist. The difficulties of obtaining formalized and systematized information are recognized. However, some of the large banks probably classify their loans in a way that would make this information readily available, and a considerable gap would be filled if it could be obtained regularly. Data of this type have been collected from New York City weekly reporting member banks for a number of years and have been useful, particularly in explaining wide swings resulting from borrowings from banks to pay off other debt or issuance of securities to pay off bank debt.

"It will be appreciated if you will make arrangements to obtain weekly analyses or breakdowns, by industry and purpose of loan, of the principal changes (both increases and decreases) in the amount of commercial and industrial loans, starting with the earliest practicable Wednesday date. In most districts sufficient data for the purpose probably could be obtained by telephone from selected weekly reporting member banks in Federal Reserve Bank, branch, and other nearby cities.

"The desired data may be obtained in any form convenient to the individual reporting member bank and may be forwarded to the Board the same way. Ideally the information should lend itself to tabulation in a form similar to that in the first column of the attached summary statement, which was based on data requested in the Board's telegram of November 14, except that the business classification may be expanded as necessary to cover the significant detail for your District. Purpose information, particularly regarding loans for defense contracts, retirement of debt, and plant and equipment, should be obtained if it is available, but the primary classification should be on the basis of the type of borrower.

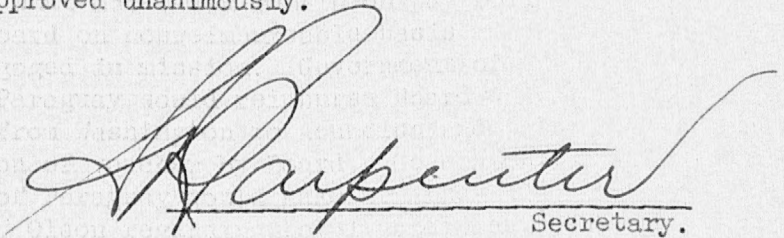
"This matter was brought to the attention of the heads of the Research departments of the Federal Reserve Banks when they were in Washington recently for the meeting of the System Research Advisory Committee, and some of them may have already initiated some action along the lines above suggested.

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"The Bureau of the Budget has approved the collection of these data under the Federal Reports Act. If you should decide to provide the reporting banks with forms on which to report the desired data, please show the designation 'Budget Bureau No. 55-R183' on the forms. After this program has been in existence for a few weeks it may be desirable to use a standard form for submitting the information to the Board. We shall appreciate your suggestions in its preparation.

"Similar programs are under consideration for obtaining, for the use of the Voluntary Credit Restraint Committee, weekly data on changes in security holdings of life insurance companies and on new security issues."

Approved unanimously.



Secretary.