

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 24, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Williams, Assistant Director, Division of Research and Statistics
Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a report on developments in the Government securities market at the conclusion of which Mr. Benner, Assistant Director, Division of Selective Credit Regulation, joined the meeting.

Mr. Norton stated that Mr. Foley, Housing and Home Finance Administrator, had advised by letter dated April 20, 1951, that that Agency had made a survey of the need for housing to serve defense activities, primarily the aircraft industry and Navy installations,

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in the San Diego, California area, that the Defense Production Administration had certified the area as a defense area for purposes of special assistance, and that a relaxation of the terms of Regulation X, Real Estate Credit, similar to actions recently announced in connection with the Atomic Energy Commission installations in South Carolina, Kentucky, and Idaho would seem appropriate in this case. In response to a question from Mr. Vardaman, Mr. Noyes stated that the need for such a relaxation had been discussed with officers of the Federal Reserve Bank of San Francisco, and that they had indicated that they would concur in the designation of San Diego as a defense area and the contemplated relaxation of terms.

Thereupon, upon motion by Mr. Norton, the following letter to Mr. Foley was approved unanimously:

"This is to advise you that the Board of Governors concurs in the defense area designation with respect to San Diego, California, outlined in your letter of April 20, 1951. This letter states that there is a need for approximately 6,000 units to be located within reasonable commuting distance of the defense establishments. It is our understanding, based on previous conversations with representatives of your Agency, that 4,000 units are to be held for rental only and the remaining 2,000 units are to be offered for sale. The entire 6,000 units will be controlled by your Agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of Regulation X will be identical with that recently announced for the AEC installations in South Carolina, Kentucky, and Idaho."

Mr. Norton said that after the discussion concerning real estate credit at the meeting on April 17, 1951, he, Mr. Riefler, and Mr. Noyes

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met with Mr. Foley to discuss the effects of Regulation X, Real Estate Credit, and the current rate of housing starts, and that Mr. Foley said that while he felt that the terms of the Regulation were having a substantial deterring effect on the volume of housing starts in the lower-price brackets, many large houses were being built. Mr. Foley appeared concerned about the situation, Mr. Norton added, and in his opinion would be willing to concur in action the Board might take to tighten the terms of the Regulation. He said that the staff was continuing to study the situation to see what could be done and that a recommendation might be presented to the Board shortly.

At this point Messrs. Benner and Leach withdrew.

After brief consideration of the question of increasing reserve requirements at central reserve city banks, Chairman Martin said that he questioned whether such action would be advisable until decisions on the general legislative program had been reached by the inter-agency Committee of Four appointed by the President on February 26, 1951, and he suggested that further consideration of the matter be deferred until that program was determined.

This suggestion was approved unanimously.

At this point Messrs. Eccles, Horbett, Assistant Director, Division of Bank Operations, and Sloan, Assistant Director, Division of Examinations, joined the meeting.

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Before the meeting there were distributed to the members of the Board copies of a proposed letter to the Presidents of all Federal Reserve Banks requesting comments and suggestions on an attached draft bill concerning capital requirements for membership in the Federal Reserve System and for the establishment of branches by member banks and other matters. There was also attached to the proposed letter an explanatory statement dated April 23, 1951, with respect to the bill and a supplementary memorandum, also dated April 23, showing nonmember commercial banks eligible and ineligible for Federal Reserve membership on the basis of statutory capital requirements.

Mr. Powell referred to the suggestion at the meeting of January 9, 1951, that he discuss capital requirements of member banks and related matters informally with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, and to the interim report he had given on these discussions at the meeting of April 12. He said that the Comptroller's Office appeared sympathetic to legislation of the type covered in the above-mentioned draft bill, but that no word had yet been received from the Federal Deposit Insurance Corporation. Mr. Powell stated that he felt it would be desirable at this time to inform the Reserve Banks of the status of these discussions and ask for their suggestions with regard to the draft bill.

Mr. Powell called attention to the fact that while section 1 of the proposed bill would repeal present statutory requirements under

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which a State bank must have a specified minimum amount of capital stock in order to be eligible for membership in the System, a bank could not be admitted to membership unless approved for deposit insurance under the Federal Deposit Insurance Act. This, he felt, might help to overcome objections to the bill on the part of the Federal Deposit Insurance Corporation and seemed a reasonable concession.

He also noted that in 1949 the Comptroller of the Currency, on the grounds that it would discriminate against national banks, raised objections to a proposal by the Board that the present capital requirements for the establishment of branches by State member banks be repealed. In view of these objections, he said, the proposed bill provided that both national and State member banks would continue to operate under the same conditions as to the establishment of branches but section 5155 of the Revised Statutes would be amended to eliminate the present minimum requirements for the establishment of branches by national banks contained in subsection (c). Mr. Powell added that he thought this would be about as much liberalization as could be achieved at the present time and that it would prove helpful in encouraging membership in the System.

Following discussion, upon motion by Mr. Powell, the following letter to the Presidents of all Federal Reserve Banks was approved unanimously:

"The Board is planning to submit to Congress as soon as possible a recommendation for legislation

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"regarding capital requirements for membership in the Federal Reserve System and for the establishment of branches by member banks. A draft of a proposed bill for this purpose is enclosed, together with a brief explanatory memorandum.

"This matter has recently been the subject of informal discussions with the staffs of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, in an effort to work out an acceptable bill which will meet objections raised by those agencies to a similar proposal several years ago. However, we have not as yet received any definite advice as to whether the enclosed draft of a bill is agreeable to those agencies.

"It will be noted that the proposed bill would include, in addition to provisions regarding capital requirements, provisions relating to the carrying of reduced reserves by certain member banks in central reserve and reserve cities and to the recirculation of fit Federal Reserve notes by the Reserve Banks.

"Before proceeding further with this matter, the Board will appreciate receiving, as soon as practicable, any comments and suggestions which your Bank may wish to offer regarding the enclosed draft of bill."

During the foregoing discussion Messrs. Solomon, Assistant General Counsel, Heath, Acting Assistant Director, Division of Selective Credit Regulation, Fauver, Assistant, Division of Selective Credit Regulation, Shay, Assistant Counsel, and Louis P. Smith, a member of the staff of the Federal Reserve Bank of San Francisco who was assisting the Division of Selective Credit Regulation temporarily in connection with consumer credit matters, joined the meeting.

In a discussion of possible bank holding company legislation, the opinion was expressed by some members of the Board present that although legislation was desirable, there was a question whether the

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Board should urge legislation at this session of Congress when the opposition to it was such as to preclude any likelihood of its favorable consideration. Mr. Evans stated that he had discussed the matter recently with Mr. Harding, President of the Independent Bankers Association of the Twelfth Federal Reserve District, that Mr. Harding stated that there was not sufficient interest in Congress at this time to press for such legislation, and that Mr. Harding proposed to discuss the matter with independent bankers and others during the next few months in an effort to arouse interest in the legislation after which he would return to Washington to discuss the situation again. Mr. Evans suggested, therefore, that consideration by the Board of bank holding company legislation be postponed pending further developments in the matter with the understanding that he might wish to submit a recommendation to the Board later in the year.

This suggestion was approved
unanimously.

At Chairman Martin's suggestion, it was agreed that a discussion of the interim report of the inter-agency Committee of Four appointed by the President on February 26, 1951, to study ways and means of restraining private credit expansion, would be postponed until the meeting of April 26.

Mr. Horbett then withdrew.

Messrs. Heath, Fauver, and Shay reported on their recent trip to Canada to study consumer credit regulation in that country, and it

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was noted that the report would be supplemented by a written report which would be circulated to the members of the Board for their information.

Messrs. Solomon, Heath, Fauver, Shay, and Smith then withdrew.

Chairman Martin stated that Mr. Clark, National Director, United States Savings Bond Division, Department of the Treasury, had inquired of him informally whether the Board would be willing to pay certain expenses incident to savings bond sales campaigns later this year. He said Mr. Clark mentioned that in the past the Board had authorized a number of contributions for this purpose and brought out that the Treasury was without funds to pay for dinners and other expenses incident to savings bond sales promotion activities and had to depend on voluntary contributions.

Mr. Carpenter referred to expenditures authorized by the Board in prior years, noting that in 1946 a dinner in Washington, D. C., was provided for savings bond workers in the Board's cafeteria at a cost of less than \$1 thousand, that in 1947 the Board paid printing costs of approximately \$10 thousand to cover a manual distributed to the field staff, and that in 1949 it paid half of the cost (approximately \$2,500) of a dinner held in Washington for field workers. He added that in 1949 also, the Reserve Banks agreed to pay the cost of one dinner for savings bond workers in each district, and that they were also called upon from time to time to provide luncheons for small groups of workers.

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In discussion, it was pointed out that the Board authorized contributions of this character on the basis that it was a matter of interest to the Board in its anti-inflationary efforts to have as wide a distribution of savings bonds as possible. The thought was expressed, however, that while there would be no objection to the Board continuing to assist the Treasury in a modest way as it had done previously, there was a question whether the Treasury should not go to the Congress for appropriations to cover large items of expense incurred regularly in connection with the sales of savings bonds.

Chairman Martin said that Mr. Clark had made no specific request and that, after discussing the matter again with him and also with Secretary of the Treasury Snyder in the light of the views expressed at this meeting, he would report back to the Board.

Mr. Powell referred to a memorandum from Mr. Sloan dated April 20, 1951, commenting on a proposed merger of the Commercial National Bank and Trust Company of New York with the Bankers Trust Company of New York, advice of which had been received informally through the Federal Reserve Bank of New York. The memorandum stated that if formally submitted to the Board and approved this would be the fourth such transaction by the Bankers Trust Company within a year, that the present proposal was understood to contemplate the assumption of deposits of the Commercial National Bank and Trust Company and disbursement of its capital, and that the examiner in charge at the last examination of

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the Bankers Trust Company had been informed by the president of the bank that the institution was embarking on a program of securing new locations in good business neighborhoods through purchase or merger with other banks.

Mr. Powell stated that he would be inclined to approve the specific merger in question because the resulting institution would have ratios of capital-to-total-assets and capital-to-risk-assets which would compare favorably with the national average, because the Commercial National Bank and Trust Company was in good asset condition and it would not appear that the character of assets of the Bankers Trust Company or the nature of its business would be materially affected by the proposed transaction, and because there was no apparent undue tendency toward monopoly. He wished, however, to bring the matter to the attention of the Board to determine the views of the Board with respect to the disbursement of capital through such absorptions especially in view of the intent of section 18(c) of the Federal Deposit Insurance Act, which provided in part that except with the consent of the Board, if the resulting bank was to be a State member bank, no insured bank should merge with another if the capital stock or surplus of the resulting or assuming bank would be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks.

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In the discussion which followed, the view was expressed that banks planning mergers which would require the consent of the Board under section 18(c) of the Federal Deposit Insurance Act should present their plans informally to the Federal Reserve Bank of their district before announcing them publicly or calling stockholders' meetings since otherwise it would be very difficult for the Board to interpose an objection in the event it should feel obliged to do so to prevent undesirable dilution of capital funds or for other reasons.

At the conclusion of the discussion, unanimous approval was given to a suggestion that a letter to all Federal Reserve Banks in the matter be prepared and presented to the Board for consideration.

The Secretary stated that, as the members of the Board had been informed, the staff of the Board in response to an informal request of the staff of the Subcommittee of the Joint Committee on the Economic Report, of which Representative Patman of Texas was Chairman, was preparing replies to a series of questions in the field being studied by the subcommittee and that it was contemplated that the answers to the various questions would be sent informally to the staff of the subcommittee as they were completed, it being understood that the replies would consist of factual material prepared by the staff which had not been passed on by the Board.

At Chairman Martin's suggestion, it was agreed that, although the replies would not represent the official views of the Board, they

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should be submitted to the members of the Board before being transmitted to the subcommittee.

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:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 23, 1951, were approved unanimously.

Letter to Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in Mr. Gilbert's letter of April 18, 1951, the Board of Governors approves, effective April 1, 1951, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
E. G. Hudel	Assistant Federal Reserve Agent <u>Head Office</u>	\$ 6,360
J. M. Ashley	Alternate Assistant Federal Reserve Agent	4,558
Edward Price	Alternate Assistant Federal Reserve Agent <u>El Paso Branch</u>	4,134
C. Hadley Fraser	Federal Reserve Agent's Representative <u>Houston Branch</u>	4,982
John A. Boyd	Federal Reserve Agent's Representative	5,512"

Approved unanimously.

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

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"Reference is made to your letter of April 16, 1951, concerning the application of the Farmers State Bank, Jesup, Iowa, for continuance 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.

"The report of examination of the Farmers State Bank, made as of October 16, 1950, reflects a sound asset condition, strong capital structure and capable management. However, it was stated that J. B. Thompson and his wife had purchased control of the bank's capital stock. He was elected president and director on September 12, 1950, and was to take over the active management on November 1, 1950. Mr. Thompson has had considerable loan and banking experience."

Approved unanimously.

Memorandum dated April 13, 1951, from Mr. Johnson, Personnel Officer, Division of Personnel Administration and Mr. Cherry, Assistant Counsel, stating that the Fair Employment Board, created in the Civil Service Commission under Executive Order No. 9980, has requested all agencies of the Government to revise their procedures and regulations for handling complaints alleging discrimination in personnel actions because of race, color, religion, or national origin, so as to conform to certain minimum standards; and recommending that in order to conform with the instructions of the Fair Employment Board, the Board's Procedures regarding Fair Employment Practices, last revised on July 13, 1950, be amended by adding a paragraph reading as follows:

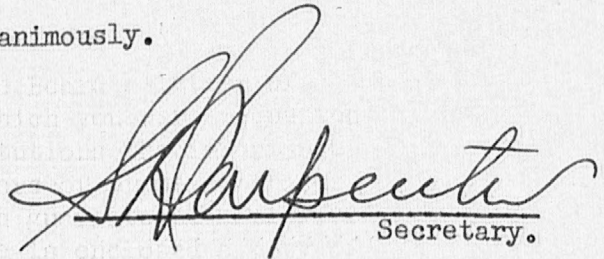
"G. Any group or organization, other than a group or organization proscribed by Executive Order No. 9835, may file with the Fair Employment Officer a written complaint in connection with personnel actions which are

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"alleged to discriminate against a group of employees or applicants on account of race, color, religion, or national origin. Such complaint must not be based on suppositions or belief, but must include full and complete information to support the allegations of discrimination, setting forth dates, names and identification of individuals involved, incidents, occurrences and circumstances. Upon the receipt of any such complaint the Fair Employment Officer will make a full and complete investigation of the matter and report the results thereof, together with any recommendations he may wish to make, to the Board. The Board may take such action as seems to be appropriate in the circumstances and advise the group or organization making the complaint of its decision and of its right to appeal to the Fair Employment Board of the United States Civil Service Commission in the event the final decision of the Board is adverse to such group or organization."

Approved unanimously.



Secretary.