Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 23, 1951. The Board met in the Board Room at 10:05 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Wayne, Acting Director, Division of Examinations
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Sloan, Assistant Director, Division of Examinations
Mr. Anderson, Economist, Division of Research and Statistics

In accordance with the request of the Board at the conclusion of the meeting yesterday, there had been prepared under date of May 22, 1951 and distributed to the members of the Board before this meeting a draft of bill providing supplemental authority over bank reserves which would require that during any period specified by the Board every insured bank (except a mutual savings bank) must maintain a reserve balance, in a certain specified percentage, against that amount of its "loan assets" in excess of 40 per cent of its total assets, with the proviso that the stated percentage of total assets could be varied in either direction in the discretion of the Board to the extent of five percentage points. The draft bill included provision for a sliding scale of reserve percentages, but there were also presented alternative paragraphs which would provide for a flat reserve percentage if desired. Loan assets, referred to in this bill as "adjusted assets", would include all assets except cash, balances due from banks, and direct obligations of the United States. Balances required under the bill would be carried with a Federal Reserve Bank except that a nonmember bank would have the privilege of counting a balance carried with any insured bank if maintained in a special account not utilized for other purposes, and the reserve requirements of the bill would be in addition to all other requirements of State or Federal law.

There had also been distributed to the members of the Board before this meeting a memorandum dated May 23, 1951, from Messrs. Young and Horbett commenting on the adjusted asset base provided in the draft bill, the desirability of providing a period of adjustment in connection with any supplemental reserve requirement imposed by the Board under the terms of the bill, and the advantages and disadvantages of a graduated scale of supplemental reserve requirements as opposed to a flat rate.

Chairman Martin said that in a conversation with Senator Maybank, Chairman of the Senate Banking and Currency Committee, he had informed the Senator that the Board would endeavor to have some bill ready for presentation to the Congress next week. He went on to say that after considering the draft of bill prepared following yesterday's meeting, he was inclined to believe that it would not provide a satisfactory means of restraining expansion of credit and that, if this were the case, it should not be presented to the Congress by the Board. Chairman Martin then called upon Mr. Riefler for an expression of his views, and Mr. Riefler said that he questioned this type of bill because it would permit banks with adjusted asset ratios below the national average to expand their loans up to that ratio without penalty, it would probably cause banks with high adjusted asset ratios to sell Government securities to meet additional reserve requirements and this would militate against the present open market policy, and it would affect all banks with high loan ratios equally despite the fact that some of these might be located in expanding areas where there were deficiencies of capital. He expressed preference for the draft of loan expansion reserve requirement bill which was discussed at the meeting yesterday and which incorporated a base-period formula, saying that he believed that that bill would meet satisfactorily the objections to the draft bill based on a current loan-ratio formula.

There followed a general discussion of the merits of the two bills but no consensus as to the form of the legislation was agreed upon.

The meeting recessed for luncheon and reconvened at 2:35 p.m. with the same attendance as at the morning meeting except that Mr. Eccles was present and Mr. Sloan was not present.

There was presented a memorandum from Mr. Wayne, dated May 10, 1951, presenting certain views, opinions, and recommendations, based on studies made by him in connection with his assignment as Acting Director of the Board's Division of Examinations, of the responsibilities of the Federal Reserve System in the field of bank supervision with particular regard to the relationships between the System, State banking authorities, and other Federal agencies with statutory responsibilities including bank supervision. The memorandum, copies of which had been furnished the members of the Board for their consideration prior to discussion at a meeting, included a review of the organization, functions, and purposes of the Board's Division of Examinations, a review of the organization and functions of the Reserve Banks as they relate to bank examination and supervision, and a review of the relationships between the Board and the Reserve Banks in this field. The recommendations contained therein were as follows:

(1) That unless and until the Congress directs otherwise the Board assure itself that thorough examinations are made of all member banks at least annually, in the case of national banks by the Comptroller of the Currency and in the case of State member banks by the Federal Reserve Banks;

(2) that the staff of the Division of Examinations be enlarged by the creation of three additional Assistant Directorships, the primary functions of the persons filling these positions being to establish and maintain a regular schedule of conferences at the Reserve Banks and their time to be divided about equally between Washington and the districts assigned to their special attention;

(3) that the Director and Assistant Directors be called into consultation with the Board either at regular meetings or otherwise in recognition of the fact that bank examination and supervision is an integral part of the over-all responsibilities of the Federal Reserve System and that a more constant contact between the Division and the Board is essential in order that members of the Division's staff visiting the Reserve Banks and other supervisory agencies may intelligently represent the views of the Board in the course of these contacts;

(4) that the Board appoint an Advisory Committee on Bank Supervision consisting of the Director of the Division of Examinations and four senior officers of the Reserve Banks, with the Director serving as permanent Chairman;

(5) that appointments of the Reserve Bank officers serving on this Advisory Committee be arranged so as to provide for the expiration of at least one term each year so as to insure continuity of membership but, at the same time, regular changes in the personnel of the Committee;

(6) that the Advisory Committee constitute the body through which the Board would seek advice and counsel concerning appropriate activities of the System in the field of bank supervision and examination;

(7) that in addition to such other duties as the Board might see fit to delegate to this Committee, which would be required to meet in Washington regularly (not less than once each quarter), its responsibilities specifically include the following:

(a) recommending a minimum scope of examination for adoption and use throughout the Federal Reserve System and maintaining a regular review of this procedure in order that it might from time to time propose appropriate improvements and modifications;

(b) recommending ways and means of maintaining appropriate cooperative relationships between the Federal Reserve System and other bank supervisory agencies particularly State banking authorities;

(c) suggesting ways and means of maintaining close working relationships between the Board's Division of Examinations and the Bank Examination Departments of the Reserve Banks to the end that uniformly high standards and practices might be maintained; and

(d) suggesting, for submission to the Reserve Banks, appropriate training programs designed to assure high standards of performance by examiners and assistants;

(8) that Mr. George S. Sloan, presently Assistant Director of the Division of Examinations, be appointed Director of the Division effective at the termination of the present appointment of the Acting Director.

Mr. Powell stated that he had carefully reviewed the memorandum in his capacity as member of the Board whose assignments include examination of State member banks, that the Personnel Committee also had reviewed the memorandum, and that he would recommend the adoption of the recommendations contained in it.

Thereupon, upon motion by Mr. Powell, the recommendations contained in the memorandum were approved unanimously with the understanding that Mr. Sloan's appointment as Director of the Division of Examinations would become effective June 1, 1951, and that Mr. Wayne would remain with the Board in the capacity of adviser to the Board, for such time as would allow him to visit all of the Reserve Banks and discuss with the appropriate officers the contemplated changes in examinations policies and procedures.

Approval was also given to reimbursement to the Federal Reserve Bank of Richmond for (1) the salary of Mr. Wayne during such time as was spent by him in his capacity as adviser to the Board and (2) for travel and other official expenses incurred by him including hotel accommodations on such basis as is approved by the Board's Personnel Committee.

The above actions were taken with the understanding that, if Mr. Vardaman wished, his position with respect to the actions would be recorded in the minutes of the Board.

There was a further extended discussion of the two draft bills under consideration to provide supplemental authority over bank reserves, namely, the draft dated May 18, 1951 providing for a loan asset base for each bank and for maintenance of supplemental reserves against any increase in the bank's loans above that base and the draft dated May 22, 1951 providing for imposition of a supplemental reserve requirement on any bank whose loan assets exceeded some specified percentage of total assets.

At the conclusion of the discussion, Chairman Martin suggested that since there continued to be a difference of opinion among the members of the Board as to the type of authority which would be suitable, the discussion be continued at a meeting on May 28 when all members of the Board could be present.

This suggestion was approved unanimously.

Mr. Eccles suggested that it would be helpful at the discussion next Monday to have the opinions of the Presidents of the Federal Reserve Banks with respect to the two draft bills.

This suggestion was approved unanimously with the understanding that drafts of the bills and memoranda relating thereto would be mailed to the Reserve Banks today and that telegrams requesting their views would be sent tomorrow as follows:

"As stated at the recent meeting of the Board and the Presidents, the Board expects to present to the Congress very shortly proposed legislation relating to supplemental reserve requirements. Since Presidents were here matter has been discussed by the Board and staff and yesterday we sent to you by air mail copies of memoranda and drafts of two bills now being considered as possible standby authority during national defense emergency. Board would appreciate very much if you would review this material and forward your comments by wire to reach the Board as promptly as possible and in any event not later than noon Sunday, May 27, so that they may be reproduced and considered when the Board takes the matter up again on Monday morning. The principal difference between the two bills is that the draft of May 18 would provide for a loan asset base for each bank and for maintenance of supplemental reserves against any increase in a bank's loans above that base. The draft of May 22 would permit imposition of a supplemental reserve requirement on the bank whose loan assets exceed some specified percentage, say 40 per cent of total assets. Such additional reserve requirements under May 22 draft would be computed either on a sliding scale related to the ratio of loan assets to total assets or on a flat percentage basis. Board is primarily interested in your views on which form the bill should take on this point having in mind that plan adopted (a) should be as effective as possible in restraining further loan expansion, (b) should have minimum adverse effects on the Government securities market, and (c) should be as equitable as possible and at the same time achieve the objective of restraining loan expansion. Your views on which form of bill would encounter less legislative opposition would be helpful.

Your comments are also desired on the following collateral points: (1) is it desirable to authorize the Board to make adjustments to meet abnormal temporary or seasonal fluctuations (see definition of adjusted asset base on page 2 of May 18 draft of bill), (2) should provision be made in May 18 draft for a minimum ratio of loan assets to total assets below which supplemental reserve requirements would not apply, (3) would it be desirable and would the legislation be effective as to nonmember banks if they were permitted to carry the required reserves with correspondent banks."

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 May 22, 1951, were approved unanimously.

Memorandum dated May 7, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending an increase in the basic salary of Theodore A. Veenstra, Analyst in that Division, from $3,100 to $3,225 per annum, effective May 27, 1951.

Approved unanimously.

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

"In view of the circumstances described in your letter of May 17, 1951, the Board of Governors approves the payment of salaries to the following employees at "the rates indicated which are in excess of the maximums established for the grades in which their respective positions are classified.

Name	Salary
Dolan, Mary	$3513
English, Mary	3600
Miles, Catherine	3589
VanNote, Helen	3586
Bell, Harry W.	3885
Duffy, George F.	3885
Hicks, Francis J.	3885
Swift, James T.	3801
O'Connor, Chas.	3711
Schnaars, John	3899
Fleming, John	8685
Humphreys, Wm.	5812
O'Brien, Helen	3062"

Approved unanimously.

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

"Reurtel May 19, 1951. Board approves appointment of Sumner Deitrick as an examiner for Federal Reserve Bank of San Francisco. Please advise when his indebtedness has been liquidated."

Approved unanimously.

Memorandum dated May 22, 1951, from Mr. Powell recommending that Mr. C. Sterling Bunnell, Vice President, The National City Bank of New York, New York, New York, and General Henry C. Evans, Partner, Stein Bros. and Boyce, 6 South Calvert Street, Baltimore, Maryland, be appointed alternate members of the Voluntary Credit Restraint Committee for Mr. George S. Moore and Mr. William K. Barclay, Jr., respectively.

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of May 17, 1951, the Board of Governors extends to September 21, 1951, the time within which the Jefferson-Gravois Bank of St. Louis, St. Louis, Missouri, may accomplish termination of its membership under the waiver of six months' notice granted on March 21, 1951."

Approved unanimously.

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

"This refers to your letter of May 11, 1951, concerning the proposed purchase by your bank of the 'Georgian-American' property in Atlanta.

"The Board has considered the matter and will interpose no objection to the purchase of this property at a cost of $300,000. It is noted that such purchase price would provide for title to the property free of an existing lease, which was made for development of commercial automobile parking facilities."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This is in response to Mr. MacPhail's letter of May 14, 1951 requesting the views of the Board on a draft of legislation which would provide compensation for war damage to private property and property owned by State and local public bodies.

"The draft would establish a War Damage Administration, the Administrator of which would have authority to pass on war damage claims in the first instance, and a War Damage Appeal Board with power to affirm, modify, or reverse any settlement approved by the Administrator.

"Title II authorizes an appropriation in the sum of twenty billion dollars for the purpose of providing compensation for war damage to private property, payments to be made in accordance with the provisions of that Title.

"Title III of the bill provides for payment to State governments, their political subdivisions, and territories and possessions of the United States for war damage to public property. The administration of Title III is placed directly in the President rather than the War Damage Administration. Two billion dollars is authorized to be appropriated for purposes of this Title and payments may be made up to 75 per cent of the estimated cost of replacement, repair, or rebuilding of damaged public property. The balance of the cost is to be supplied by the government entity concerned if financially able to do so. Otherwise, such entity may acquire necessary funds through the sale of its obligations to the Treasury which is authorized to purchase such obligations in the aggregate amount of one billion dollars.

"The Board recognizes that some form of legislation is necessary in advance of actual damage resulting from possible enemy attack, and further, that the exigencies of the situation which may exist following attack can not be fully anticipated. Obviously, therefore, it is desirable that any legislation which may be adopted at the present time should be sufficiently flexible as to be effective in almost any type of emergency. The draft provides considerable flexibility although an actual emergency may require some modification of its provisions particularly with respect to the amount of the appropriation which may be required. The Board approves the objective of the plan and considers that the draft provides a reasonable approach to the problem as it exists at the present time."

Approved unanimously.

S. R. Carpenter

Secretary.