

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 5, 1951. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of
Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hooff, Assistant Counsel
Mr. Youngdahl, Chief, Government Finance
Section, Division of Research and
Statistics
Mr. Leach, Economist, Division of
Research and Statistics

Mr. Thomas reported on recent developments in the Government securities market, commenting particularly on the reaction of the market to the recent Treasury announcement for refunding of securities maturing in June and July. Following Mr. Thomas' remarks, Messrs. Youngdahl and Leach withdrew from the meeting.

Before this meeting there had been sent to each member of the Board a memorandum from Messrs. Sloan and Vest dated June 4, 1951, with respect to a proposed consolidation involving Mercantile-Commerce Bank and Trust Company, St. Louis, Missouri, to which was attached a memorandum prepared by Mr. Robert Neill, Jr., Attorney, representing Mercantile-Commerce Bank and Trust Company, regarding the details of the consolidation

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to take place between that bank and Mississippi Valley Trust Company, St. Louis, Missouri, both of which are State member banks of the Federal Reserve System. The memorandum from Messrs. Sloan and Vest stated that while Mercantile-Commerce Bank and Trust Company was not asking the Board for approval or permission, it presumably would like to know on an informal basis whether the Board would object or take any administrative action if the consolidation was carried through as planned. The memorandum pointed out several matters for consideration, the principal question being that under the consolidation plan the trust company would purchase the stock of the Mercantile-Commerce National Bank, which for upwards of twenty years had been trustee for the benefit of those who were shareholders of the Mercantile-Commerce Bank and Trust Company when the trust was established; that the stock of the national bank would then be, in effect, donated by the trust company to the Mercantile-Commerce Company, a wholly owned subsidiary of the trust company acquired prior to the time when purchases of stock by member banks were made unlawful; and that this would be a technical violation of the statute and would result in a depletion in the assets of the trust company of some \$1,600,000. The proposal would result in the continuation of an arrangement substantially like that which has existed over some twenty years past, except that the holders of beneficial interest in the existing trust are not identical in all respects with the present shareholders of the Mercantile-Commerce Bank and Trust Company, which would donate the stock of the

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national bank to its wholly owned subsidiary.

In commenting on the memorandum, Mr. Vest stated that the banks were consolidating under a State statute which provided that two banks may consolidate into one bank, and that the consolidated bank would be a continuation of the corporate existence of both of the banks and that, therefore, there would be no need for the Mercantile-Commerce Bank and Trust Company to apply for membership in the Federal Reserve System if the consolidation was consummated. Thus, he stated, the Board did not appear to be called upon to take affirmative action approving the consolidation, and it would be a question whether, if the consolidation were consummated, the Board would take action against the bank because of the technical violation of the statute. Such action, Mr. Vest stated, could be to expel the bank from membership in the System.

Mr. Young, Director of the Division of Research and Statistics, joined the meeting at this point.

In response to a question from Chairman Martin, Mr. Sloan stated that there was no apprehension on the part of the Division of Examinations concerning the proposed consolidation from the standpoint of the bank or the service it would render to the community, that both State member banks were in good condition and under capable management, and that the only question was that of the technical violation of Section 5136, Revised Statutes, previously discussed. Consideration of this was complicated, he said, by the fact that in the case of a national bank in Dallas, Texas,

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the Comptroller of the Currency had permitted a situation to exist for many years which was no different from that which would exist if the St. Louis State member banks carried out the proposed plan of consolidation. Also, a similar situation had existed in the case of a State member bank in Atlanta, Georgia, for many years, Mr. Sloan said.

Mr. Vardaman stated that he had been familiar with the proposed consolidation for some time and with the situation that had long existed whereby the Mercantile-Commerce Bank and Trust Company in fact controlled the Mercantile-Commerce National Bank. He stated that while he would like to see the consolidation of the Mercantile-Commerce Bank and Trust Company and Mississippi Valley Trust Company consummated, he felt the Board should not permit the continuation of a situation where there was a technical violation of the statute even though, in effect, it would be continuing a situation that had existed for a great many years and would be bringing about a situation in St. Louis substantially like that which had long been permitted in Dallas and Atlanta. Mr. Vardaman went on to say that he felt the Board should take the position that it was not going to approve the proposed purchase of stock of the national bank. Mr. Vardaman stated further that because he had opposed the control of the national bank by the Trust Company when he was President of a neighborhood bank in St. Louis and active in the neighborhood bankers association, he felt that he should refrain from voting on this question or participating in any further discussion of it.

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In response to a question from Chairman Martin as to what steps the Board might take in this connection, Mr. Vest stated that the Board had authority to remove officers and directors of banks for continued violations of law, but he questioned whether this authority could be effectively exercised in this instance and said that, in his opinion, the only practicable action that might be taken would be to expel the bank from membership. Mr. Vest also stated that if the bank chose to do so, it could withdraw from membership in the System for a brief period and consummate the transaction as a nonmember bank, and the consolidated bank, having thus completely corrected any legal difficulties, could then apply for membership in the System and it would be a question for the Board to determine whether the bank should be admitted as a member bank.

During an extensive further discussion of the matter, consideration was given to various suggestions in the course of which Chairman Martin expressed the view that under all the circumstances the Board might either indicate informally to representatives of the Mercantile-Commerce Bank and Trust Company that it would not expect to object to the consummation of the merger along the lines presented by representatives of that bank informally to the Legal Division, or that it could take the position that it had no comment to make concerning the proposal. The preferable procedure, he felt, would be for Mr. Vest to indicate informally to Mr. Neill, Attorney for the bank, that he had brought the matter to the

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attention of the Board and that on the basis of an informal discussion of the matter the Board would not expect to interpose any objection to the purchase of the stock of Mercantile-Commerce National Bank by Mercantile-Commerce Bank and Trust Company as contemplated in the proposal submitted by Mr. Neill.

Following a discussion, upon motion by Mr. Norton, the latter suggestion was approved. Mr. Vardaman did not vote on the question because of his previous official connection with St. Louis banks, and for reasons given previously during this meeting. In taking this action it was understood that Mr. Vest would transmit the comments informally to representatives of the Mercantile-Commerce Bank and Trust Company.

Mr. Norton then presented two memoranda dated June 4, 1951, recommending that the Board concur in the designation by the Housing and Home Finance Administrator of the Bremerton, Washington, and San Marcos, Texas, areas as areas for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. The memoranda stated that the Housing and Home Finance Agency had made a comprehensive survey of the need for housing to serve the Bremerton, Washington, area and had concluded that there was an urgent need for approximately 750 units, to be located within reasonable commuting distance of naval installations in Bremerton, and that in the case of San Marcos the Agency had concluded on the

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basis of a survey that there was an urgent need for approximately 50 units in connection with the air force base.

Thereupon, upon motion by Mr. Norton, unanimous approval was given to letters to Mr. Foley, Housing and Home Finance Administrator, as follows:

Letter regarding Bremerton, Washington

"In response to your letter of June 1, 1951, this is to advise you that the Board of Governors concurs in your designation of the Bremerton, Washington, area as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for 750 housing units to be located within reasonable commuting distance of Bremerton, 450 to be rental units ranging from \$60 to \$90 per month, and 300 to be sale units at \$9,500 and \$10,500 each. Under the terms of the exemption, the entire 750 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be identical to that previously announced for other designated defense areas."

Letter regarding San Marcos, Texas

"In response to your letter of June 1, 1951, this is to advise you that the Board of Governors concurs in your designation of the San Marcos, Texas, area as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for 50 rental units to be located within reasonable commuting distance of San Marcos, to rent for \$65 and \$75 per month each. Under the terms of the exemption, the entire 50 units will be controlled by your agency through the issuance of specific certificates.

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"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be identical to that previously announced for other designated defense areas."

The members of the staff then withdrew and the Board went into executive session.

Following the executive session, Chairman Martin reported to the Secretary that the Board had considered the memorandum dated May 29, 1951, from Mr. Allen, Director of the Division of Personnel Administration, recommending that Mr. Hilkert, who had been serving as Acting Director of the Division, be appointed a consultant to the Board and that the Director of the Division of Personnel Administration be authorized to request Mr. Hilkert's services as consultant whenever it was felt they were necessary. The recommendation contemplated that during the next several months Mr. Hilkert might be asked to visit the Board's offices on an average of two or three days a month and that the current arrangement with respect to the reimbursement of the Federal Reserve Bank of Philadelphia for Mr. Hilkert's salary and actual expenses incurred by him would be continued.

Chairman Martin also advised the Secretary that Mr. Allen's recommendation had been approved unanimously by the four members of the Board attending the executive session, with the understanding, however, that any request by Mr. Allen for the services of Mr. Hilkert would have the prior approval of the Personnel Committee.

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While the Board was in executive session, a telegram dated June 4, 1951, was received from the Federal Reserve Bank of St. Louis which raised certain questions as to whether a new corporation would be formed as a result of the proposed consolidation of Mercantile-Commerce Bank and Trust Company and Mississippi Valley Trust Company, and whether in such event a new application for membership in the Federal Reserve System involving formal approval of such application by the Board would be required in connection with the consolidation. Messrs. Carpenter, Vest, Sloan, and Solomon then returned to the meeting and indicated that this telegram placed the matter in a new light since, if a new application should be necessary, the Board would be called upon to approve the application in the light of the entire transaction.

There ensued a further discussion of the matter during which it was agreed unani-
mously that the understanding reached earlier
in this meeting was rescinded and that the
matter would be brought up for consideration
again after the point raised in the telegram
from the Federal Reserve Bank of St. Louis
was clarified.

At this point Messrs. Vest, Sloan, and Solomon 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 June 4, 1951, were approved unanimously.

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Memorandum dated May 28, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that the resignation of Miss June A. Truitt, Clerk-Stenographer in that Division, be accepted to be effective, in accordance with her request, at the close of business June 8, 1951.

Approved unanimously.

Memorandum dated June 4, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Gertrude E. Booth, Stenographer in that Division, be accepted to be effective, in accordance with her request, at the close of business June 15, 1951.

Approved unanimously.

Memorandum dated June 4, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective June 10, 1951:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John Frechtling	Economist	\$4,600	\$4,725
Alice Swindlehurst	Clerk	4,075	4,200
M. Elva Morse	Clerk	3,195	3,275
Reba C. Driver	Clerk	2,730	2,810

Approved unanimously.

Memorandum dated June 1, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending a leave of absence without pay for Miss Elizabeth J. McGuire, Stenographer in

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that Division, upon the expiration of her annual leave of 8 days and 7 hours, beginning June 7, 1951, until September 15, 1951.

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Spessard L. Holland, United States Senate, Washington, D. C., reading as follows:

"Thank you for referring to the Board of Governors a copy of the telegram dated May 16, 1951, from Mr. C. A. Williamson, Vice President of the Builders Mortgage Corporation, St. Petersburg, Florida, concerning the supply of mortgage funds. Identical telegrams from Mr. Williamson were also received through the offices of Senator Smathers and Representative McMullen. We are glad of the opportunity to explain the Board's position on the matter.

"We are particularly gratified to learn that Mr. Williamson feels that the goal of 850,000 units is sound, and that Regulation X is working well. The regulation, as you know, was authorized by Congress in the Defense Production Act of 1950, and is designed to combat inflationary pressures and conserve materials for the defense effort. The regulation is intended to influence the amount and flow of credit by specifying certain terms -- down payment, maturity, and amortization requirements -- which borrowers must meet to obtain the credit. In effect, it is intended to reduce demand. In so doing, it must necessarily prevent some people from buying new homes who otherwise might have been able to.

"The tightening in the supply of mortgage funds to which Mr. Williamson refers is partly the result of the Federal Reserve System's open market policy. Since the outbreak in Korea the demand for long-term credit has been exceptionally great and in total has considerably outstripped the supply of savings becoming available for such investment. Some holders of outstanding marketable Government bonds, such as insurance companies and savings banks, were selling from their portfolios in order to raise

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"funds to meet this surplus demand for long-term credit, and the volume of such sales was greatly in excess of the buying by other investors. Until recently, the Federal Reserve System had been buying up the excess of bonds offered for sale, thus preventing price declines. These purchases, however, were very inflationary. They both increased the money supply and swelled the reserves of banks, thus becoming the basis for an expansion of bank lending activities.

"In order to keep down such monetization of the Government debt, the Federal Reserve policy of rigid support of Government bond prices was discontinued. Prices of bonds declined in response to the excess of selling over buying in the securities market. Lenders are now more reluctant to sell their Government securities to make mortgage loans. This has tended to reduce the supply of mortgage funds to some extent, and by diminishing the flow of funds from a highly inflationary source, has restored a more normal situation in which the demand for mortgage loans is met more completely from the natural flow of savings into lending institutions.

"Federal Reserve policy, however, has not been the only force at work. Many lending institutions have become fully loaned-up for the time being and are not making new commitments at the unusually high volume of last fall. This situation should improve in the near future as institutions digest the backlog of commitments and receive an increased flow of new savings and pay-offs. Limitation of new housing starts to 850,000 a year will do much to bring about such an adjustment in the mortgage market.

"We hope this will explain the Board's views on the question which Mr. Williamson raises. If we can be of further assistance, please do not hesitate to call upon us."

Approved unanimously, with
the understanding that similar
letters would be sent in response
to other inquiries where appropriate.

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

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"By your letter of May 18, 1951, and its enclosures, you wrote to the Board concerning the status, under Regulation W, of certain loans by production credit associations to member-farmers. As you indicated, this matter has been the subject of discussions between members of your staff and members of the Board's staff. Briefly, the question is whether an association loan is an instalment loan under Regulation W where the loan, although evidenced by a single payment note, is accompanied by a plan or arrangement pursuant to which the parties expect that certain payments in partial liquidation of the indebtedness will be made prior to maturity date of the note.

"Regulation W, in its present form, applies to 'instalment credit' which is defined to mean 'a credit which the obligor undertakes to repay in two or more scheduled payments or as to which the obligor undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or which has a similar purpose or effect'. By section 8(j)(6), this basic definition is incorporated in the definition of 'instalment loan'.

"This broad definition concerns itself with substance, rather than form. Concepts which might apply elsewhere are not necessarily controlling under the regulation. Consequently, the fact that an obligation is in the form of a single-payment note will not, of itself, prevent the application of the regulation where there are other features of the transaction which bring it within the definition. In the Board's view, an arrangement or plan for the orderly repayment or retirement of the debt as described by you would constitute such a feature.

"The views just expressed would, of course, apply in the case of any institution engaged in the lending business which might make loans of a similar nature. Regulation W is of broad application and the Board has always endeavored to attain the greatest possible equality of treatment among those subject to the regulation.

"You referred to the fact that so-called 'dairy loans' of the associations are considered subject to the regulation. Consequently, the extension of the application of the regulation in accordance with the above views to other association loans should not be too difficult. Of course, it will be necessary in connection with the borrower's application to obtain information from him meeting the requirements of

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"section 4(d) and revealing the purposes of the loan. Unless the loan is to purchase an article listed in the Supplement to the regulation or to make a down payment on any such article, most of the association loans would seem to be exempt under section 7(b) relating to agricultural loans. However, in those cases where the association loan is to purchase a listed article, such as an automobile, then, as in the case of a bank or other lender, the amount of the loan may not exceed the maximum loan value prescribed for the article by the regulation.

"At the present time the maximum maturities for transactions subject to the regulation are for periods in excess of one year. This should not prove burdensome, since you indicate that the association loans normally are limited to one year. In addition, section 6(a)(1) of the regulation makes special provisions affording great flexibility in the repayment of instalment obligations by obligors with seasonal incomes, such as farmers.

"In the discussions with members of your staff, it was pointed out to us that a very small number of association loans are for the purpose of purchasing listed articles. This fact, together with the matters pointed out above and the procedures already established by the associations in connection with 'dairy loans', would appear to make compliance with the regulation in connection with other association loans a relatively simple matter. Clearly, the problems of the associations will be far fewer than those of other regulated lenders whose business in the regulated areas is more extensive.

"The Board appreciates your cooperation in submitting this matter and, of course, is ready at all times to be of such assistance as you may consider necessary or desirable."

Approved unanimously.

Letter to the Honorable Thomas J. Lane, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of May 23, 1951, with which you enclosed a letter regarding Regulation W, Consumer Credit, from Mr. Frank E. Wentworth of the Newburyport Motor Mart, Inc., Newburyport, Massachusetts. The letter pertains

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"to the effects of the credit terms of the regulation on the instalment sales of automobiles to average workmen who require private motor vehicle transportation in order to reach their places of employment.

"We recognize that, as Mr. Wentworth points out, the terms of Regulation W may make it difficult or even impossible for some workers who need automobiles for the above purpose to buy new cars or the higher priced late model used cars. In view of this situation, the Board has given considerable study to the possible need for special provisions covering cases of this kind. To date, however, our studies have not indicated that the need for such a special exemption is great enough to justify the sacrifice that would be involved in the effectiveness of Regulation W. This is especially true, in our opinion, because the regulation, on balance, is helpful to the low income purchaser in making an automobile available to him at lower prices.

"Before Regulation W was reissued last September, automobile prices were substantially higher than they are now. New automobiles were generally sold with extra equipment or small trade-in allowances, and used automobiles were priced considerably higher than they are now. While Regulation W was not the only factor tending to reduce car prices, we feel it has made an important contribution. As a result of these price declines, down-payment requirements are substantially smaller than they were, and the monthly payments required under the regulation are materially less than they would have been at pre-regulation prices. Our studies show that good used cars are available on terms that can be met out of factory workers' incomes. The man of average income typically buys a used car. Good usable cars continue to be available on terms of 25 to 50 dollars a month.

"The Board has also studied the possibility of making individual exemptions in certain special cases. These studies, based in part on our experience with such provisions during World War II, have indicated that any such exemption would also tend to weaken seriously the effectiveness of the regulation.

"The consumer credit regulation must be restrictive, of course, if it is to accomplish its major purpose of helping to restrain general inflationary forces by curbing

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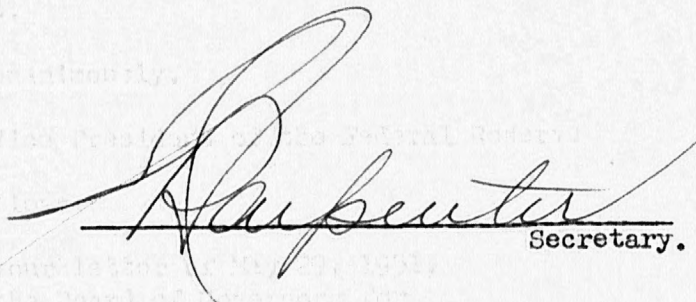
"instalment credit. The Board does not wish to be excessively restrictive in the case of individual articles or industries, but in carrying out its responsibilities under the Defense Production Act it must at the same time consider the necessity of curbing the inflationary effect of instalment credit in the interests of the economy as a whole, in this period of national emergency.

"Although the Board recognizes that there has been a general softening in the markets for consumer durable goods following the heavy buying wave of last December and January, nevertheless, in the light of general economic and credit conditions, the relaxation of the regulation at this time does not appear to be in the interests of the national defense program.

"We are returning Mr. Wentworth's letter as requested, and we appreciate this opportunity to outline our views on the problem of the average worker who requires private automobile transportation in order to hold his job.

"We received identical letters from Mr. Wentworth through the offices of Senator Saltonstall and Representative Bates, and we replied to both substantially as we have in this letter."

Approved unanimously, with
the understanding that similar
letters would be sent in response
to other inquiries where appropriate.



Secretary.