

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 3, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Thomas, Economic Adviser to the Board  
Mr. Leonard, Director, Division of Bank  
Operations  
Mr. Vest, General Counsel  
Mr. Townsend, Solicitor  
Mr. Young, Director, Division of Research  
and Statistics  
Mr. Sloan, Director, Division of Examinations  
Mr. Solomon, Assistant General Counsel  
Mr. Hostrup, Assistant Director, Division of  
Examinations  
Mr. Cherry, Assistant Counsel, Legal Division  
Mr. Leach, Economist, Division of Research and  
Statistics

Mr. Johns, President of the Federal Reserve Bank of St. Louis, was also present.

Chairman Martin stated that Mr. Johns was present at the meeting in order to present to the Board further information relative to the proposed consolidation of Mercantile-Commerce Bank and Trust Company with Mississippi Valley Trust Company, both of St. Louis, Missouri, which had been the subject of discussion at meetings of the Board on June 4 and 12, 1951.

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Mr. Johns then made a statement substantially as follows:

It seemed to me desirable to keep the Board of Governors advised concerning developments connected with but only indirectly related to the consolidation of Mercantile-Commerce Bank and Trust Company with Mississippi Valley Trust Company. The matter with which I am primarily concerned has to do with the reacquisition by Mercantile-Commerce Bank and Trust Company of all shares except qualifying shares of Mercantile-Commerce National Bank and their subsequent transfer to trustees.

On Monday, June 25, the details of the proposed reacquisition of these shares and their subsequent transfer became public knowledge in St. Louis due to the fact that trustees under the old 1934 agreement mailed to all holders of certificates of beneficial interest remittances of approximately \$12.00 per share together with a statement about the transaction. Almost simultaneously there were mailed to shareholders of Mercantile-Commerce Bank and Trust Company notices of a meeting on August 1 to ratify the agreement together with letters explaining the whole story of the transfer of shares. There is such a diversity of elements in the two groups that with these actions no semblance of secrecy could be preserved.

The following day Mr. James P. Hickok, Executive Vice President of the First National Bank of St. Louis, called me on the telephone to inquire with whom he might discuss the matter and asked whether the Board of Governors or the directors of the Federal Reserve Bank of St. Louis had approved the reacquisition of the shares of the Mercantile-Commerce National Bank by the Mercantile-Commerce Bank and Trust Company. I reminded him that neither the Board of Governors nor the directors of the Reserve Bank had authority to approve or disapprove such a transaction and that the answer, therefore, was in the negative. Mr. Hickok then inquired whether the First National Bank of St. Louis might effect the same kind of transaction, saying that Mercantile-Commerce Bank and Trust Company would

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in effect be establishing a branch by that method and in self-defense the First National Bank might have to do the same thing. In answer I told him that if the Federal Reserve had no authority to approve in the case of the Mercantile-Commerce Bank and Trust Company transaction, we could not do so in the case of his bank and that it would have to make its own decision. Mr. William A. McDonnell, President of the First National Bank of St. Louis, is a member of the board of directors of the Federal Reserve Bank and after a meeting of the directors the following day, I discussed the matter with him, the substance of our discussion being approximately the same as my conversation with Mr. Hickok.

On Tuesday, June 26, Mr. Kroner, Chief Examiner of the Federal Reserve Bank of St. Louis, reported that, in the absence of Vice President Peterson, he had received telephone calls from several bankers representing outlying banks in the St. Louis area who made inquiries along the same lines as Mr. Hickok.

I am inclined to believe that some single source is stirring up agitation against this transaction in the area but I do not know exactly what this source might be. In the circumstances, it appears that the Board of Governors or the Federal Reserve Bank of St. Louis, or both, may be asked formally in a letter the same general questions as were posed by Mr. Hickok.

I wanted the Board to have the feel of the situation in St. Louis and to sense the current impact of the news of the transaction in banking circles in the area. There appears to be fear that the device used by Mercantile-Commerce Bank and Trust Company will be used again in order to establish branch banking systems in and around the city. Talk has revived around St. Louis County about attempting to get legislation permitting branch banking in metropolitan areas in the State of Missouri. The First National Bank appears to be apprehensive that it will have to act to protect its position and the smaller banks profess to envisage branch banking across the State which might involve the acquisition of certain smaller banks.

I am obligated to have a meeting later this week with representatives of the outlying St. Louis banks and wanted



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the Board to be acquainted with the situation before this meeting or any similar meetings that might be requested by other banking groups. I have no recommendations as to what may be done about the situation, but felt I could best give you the information I had by making an oral presentation.

Mr. Vardaman said that the statements made by Mr. Johns more or less confirmed what he had felt when he first learned of the proposed merger; namely, that a move of this kind by Mercantile-Commerce Bank and Trust Company would be interpreted by outlying bankers in the St. Louis area as an effort to create a branch banking system and would arouse opposition on their part. As soon as the merger was announced, Mr. Vardaman said, he received word from two sources that outlying banks were going to attempt to block it. It was his information that some holders of certificates of beneficial interest in Mercantile-Commerce National Bank were desirous of selling to the Bank of St. Louis and were secretly trying to get control of the certificates of beneficial interest with a view to getting control of the national bank. Mr. Vardaman went on to say that after having received several telephone calls from St. Louis he telephoned Mr. Tom K. Smith, Chairman of the Board of the Boatmen's National Bank, St. Louis, to discuss the situation, and that Mr. Smith said that neither his bank nor he personally would have any objection to the proposed transaction and that they would not participate in any move against it. Mr. Vardaman said it was his opinion that none of the big banks in the St. Louis area would actively oppose the merger, but that opposition would be forthcoming from the outlying banks.



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Mr. Johns said that the First National Bank felt that the move was the first in a series of transactions to establish a branch banking system, but that he had no reason to believe that such would be the case or that the transaction was anything more than an attempt to preserve a situation which, in effect, had been in existence for twenty years. Mr. Johns also said that he had made this point in his conversations with representatives of the First National Bank of St. Louis.

In answer to a question by Mr. Powell whether a similar transaction involving the First National Bank of St. Louis would come under the supervision of the Office of the Comptroller of the Currency rather than the Board of Governors, Mr. Vest said that this would be true. Mr. Vest also said that it would be awkward for the Comptroller of the Currency to take a position in St. Louis which would be contrary to a position already taken by his Office with respect to a similar situation in Dallas, Texas, and that he assumed that the Comptroller of the Currency would wish to apply the same standards and rules as were applied in the Dallas case.

During the foregoing discussion, Mr. Noyes, Director of the Division of Selective Credit Regulation, joined the meeting and Mr. Leach withdrew, and at its conclusion Messrs. Hostrup and Cherry also withdrew.

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Mr. Thomas presented a report on developments in the Government securities market which was followed by a brief discussion.

Reference was made to a discussion at the meeting of the Board on June 28 concerning a memorandum dated June 27, 1951 from Mr. Leonard, Director, Division of Bank Operations, recommending that the Federal Reserve Banks be advised that the Board approved the charge-off of the unamortized premium on the nonmarketable 2-3/4 per cent bonds, Investment Series B-1975-80, held in the System open market account which premium was carried over from the restricted 2-1/2 per cent bonds which were exchanged for the 2-3/4's in April of this year. Action had been deferred at that meeting pending discussion at a meeting at which Mr. Powell could be present.

Mr. Powell said that in his opinion this unamortized premium represented a loss on an item which no longer existed since the 2-3/4 per cent bonds represented a different type of asset from the 2-1/2 per cent bonds. He felt, therefore, that as a matter of good accounting procedure the write-off should be made.

Mr. Vardaman reiterated the concern which he had expressed along with Mr. Eccles at the meeting on June 28 that the charge-off by the System of the unamortized premium might be so interpreted as to weaken the 1938 agreement of the Federal bank supervisory agencies with respect to the treatment of market fluctuations in investment quality

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securities. He added, however, that he would have no objection to representatives of the Board's staff discussing the matter with representatives of the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. Mr. Vardaman also stated that he wished the record to show that he did not question the soundness of the charge-off from a bookkeeping standpoint but questioned the desirability of such a charge-off at this time purely from the standpoint of the effect which it might have on relationships with the other two Federal bank supervisory agencies.

Mr. Leonard stated that as far as Federal Reserve Bank operations were concerned it appeared to him proper to write off the unamortized premium on the grounds that the bonds, which were purchased at a premium, were no longer held in the System open market account and had been replaced by a different type of security, but that he would not presume to judge the effect of such a charge-off from the standpoint of relationships with other Federal bank supervisory agencies.

Following additional discussion, Chairman Martin suggested that, since there was no urgency in making a decision, action be deferred pending further study of the question.

This suggestion was approved,  
Mr. Powell voting "no".

At this point Messrs. Hackley, Assistant General Counsel, Boothe, Assistant Director, Division of Selective Credit Regulation, and Schmidt,



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Chief, Business Finance and Capital Markets Section, Division of Research and Statistics, joined the meeting.

Before the meeting there had been distributed to the members of the Board a draft of statement to be presented by Chairman Martin in the event he was called upon to appear at hearings which Senator Robertson of Virginia stated in a letter dated June 19, 1951, he would call on S. 1647, a bill to amend Section 13b of the Federal Reserve Act to provide for Federal Reserve Bank guarantees of certain loans to small and medium-sized business concerns, together with a draft of reply to a letter dated June 25, 1951, from Senator Robertson addressed to the Chairman asking certain questions concerning the bill.

Chairman Martin stated that he was not sure when he would be called upon to testify in connection with the bill although Senator Robertson had indicated that hearings would be held early in the month of July.

Several suggestions for changes in the letter and statement were made during the ensuing discussion, at the conclusion of which it was suggested that they be approved subject to such revisions as Chairman Martin felt were desirable in the light of the discussion at this meeting, with the understanding that he would transmit the letter to Senator Robertson at such time as he deemed desirable, and that he would be authorized to present the statement if called upon to testify on the bill.

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This suggestion was approved unanimously.

Secretary's note: Pursuant to the foregoing action, the letter was sent to Senator Robertson under date of July 9, 1951 in the following form. Subsequently, Senator Robertson decided not to call hearings on S. 1647 and Chairman Martin was not called upon to appear:

"In your letter of June 25, 1951, with further reference to the Board's position regarding the bill S. 1647 to amend section 13b of the Federal Reserve Act, you ask, first, whether we would favor the enactment of that bill if we were in a deflationary instead of an inflationary period and small business was in need of greater financial assistance than chartered banks would ordinarily furnish, and, secondly, whether we would favor enactment of the bill if Congress should vote to abolish the Reconstruction Finance Corporation.

"As you know, in 1947 the Board recommended enactment of a bill similar to S. 1647. At that time, however, there was no national emergency; rather, we were in the period of readjustment from war and in some quarters it was feared that a deflationary setback of more or less serious proportions might occur at some not too distant stage.

"Under present conditions, the situation and outlook are markedly different. In view of the threat that inflationary pressures will recurrently dominate the indefinite defense effort in which the country is now launched, and also in view of the Federal Reserve System's responsibilities for combating inflationary trends, the Board cannot consistently recommend the enactment of S. 1647 at this time. If and when we should return to a time of normal credit conditions and economic tendencies should become deflationary, we would then again wish to consider recommending legislation along the lines of S. 1647 to provide necessary assistance in the financing of business enterprise. The consideration of such legislation, however, in our opinion should be deferred until such time as the need for such legislation can be more clearly

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"determined in the light of conditions which may exist after the present emergency has ended and more normal conditions have returned.

"In this connection, I think I should say that our position regarding the desirability of this legislation is influenced by the belief that adequate credit is now available for essential civilian production needs of business enterprises and that working capital required by businesses for defense purposes is also readily available through the medium of the current V-loan program and other existing means of aiding in the financing of defense contractors. In those cases in which small business enterprises are presently unable to obtain critical materials for civilian production and do not have defense production contracts, it seems to us that the problem confronting business enterprises is not primarily one of inadequate credit and that the provision of easier credit availability will in no way contribute to its solution. On the other hand, easier credit availability might well serve to feed inflationary pressures at a time when such pressures were otherwise strong.

"As to your second question, it is our view that the RFC, which was originally established as an emergency organization, might well be continued at this time for the exercise of emergency functions such as the providing of financial assistance necessary to expedite defense production in those exceptional cases in which financing for defense needs cannot be obtained from the usual credit sources, either from private financing institutions or through guarantees of defense loans under the current V-loan program. Accordingly, if its authority is limited to the providing of credit assistance for defense purposes in such exceptional cases, the Board feels that the continuance of the RFC would be preferable to its abolition at this time."

Letters to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., reading as follows:



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Letter regarding Borger, Texas

"In response to your letter of June 29, 1951, this is to advise you that the Board of Governors concurs in your designation of the Borger, 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 approximately 200 housing units to be located within reasonable commuting distance of the defense establishments. We understand that these are to be rental units ranging from \$50 to \$70 per month each. Under the terms of the exemption, the entire 200 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 similar to that previously announced for other designated defense areas."

Letter regarding Huntsville, Alabama

"In response to your letter of June 29, 1951, this is to advise you that the Board of Governors concurs in your designation of the Huntsville, Alabama, 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 approximately 600 housing units to be located within reasonable commuting distance of the defense establishments. We understand that 400 are to be rental units ranging from \$55 to \$75 per month each, and 200 are to be sale units at \$8,000 and \$9,250 each. Under the terms of the exemption, the entire 600 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 similar to that previously announced for other designated defense areas."

Letter regarding El Centro-Imperial, California

"In response to your letter of June 29, 1951, this is to advise you that the Board of Governors concurs in

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"your designation of the El Centro-Imperial, California, 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 approximately 100 housing units to be located within reasonable commuting distance of the defense establishments. We understand that 40 are to be rental units ranging from \$65 to \$85 per month each, and 60 are to be sale units at \$9,500 and \$10,500 each. Under the terms of the exemption, the entire 100 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 similar to that previously announced for other designated defense areas."

Letter regarding Dana, Indiana

"In response to your letter of July 3, 1951, this is to advise you that the Board of Governors concurs in your designation of the Dana, Indiana, 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 approximately 80 housing units to be located within reasonable commuting distance of the defense establishments. We understand that 40 are to be rental units ranging from \$80 to \$90 per month each, and 40 are to be sale units at \$10,000 and \$11,000 each. Under the terms of the exemption, the entire 80 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 similar to that previously announced for other designated defense areas."

Approved unanimously.

At this point President Johns and the members of the Board's staff, with the exception of Messrs. Carpenter, Thurston, Young, and Noyes, withdrew from the meeting.

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In connection with the earlier discussion of the proposed merger of the Mercantile-Commerce Bank and Trust Company and the Mississippi Valley Trust Company of St. Louis, Missouri, Mr. Vardaman expressed the opinion that none of the national banks in St. Louis would undertake to create trust arrangements for the holding of bank stock in a manner which would require the approval of the Comptroller of the Currency, but rather would act through affiliated state banks or other affiliates for the purpose of holding bank shares under a trustee arrangement.

Reference was then made to developments in Congress over the week end in connection with the extension of the Defense Production Act, to the limitations which would be applied by the bill passed by the Senate and the bill reported by the House Banking and Currency Committee on the authority of the Board of Governors with respect to consumer instalment and real estate credit, and to the statement made on the floor of the Senate on Friday, June 29, by Senator Maybank that if Senator Ferguson of Michigan would be willing not to press an amendment to a joint resolution which would extend the Defense Production Act until the end of July, he (Senator Maybank) would talk to the Chairman of the Board of Governors and tell him that the Senate had passed a provision relaxing Regulation W, Consumer Credit, on the sale of automobiles and that the House Banking and Currency Committee had taken similar action.

Chairman Martin stated that on Friday evening, June 29, 1951, Senator Maybank called him in Connecticut to say that he had been instructed by the



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Senate Banking and Currency Committee to talk to the Chairman of the Board of Governors and convey the expressed desire of his committee that the Board consider relaxing Regulation W along the lines of the proposals adopted by the Senate and the House of Representatives. Chairman Martin said he made no commitment whatever to Senator Maybank other than to say that he would present the matter to the Board. He also said that Senator Maybank stated that he was going to make a statement on the matter the next day, and that apparently the statement made by the Senator on Saturday was the basis for the newspaper comment that the Board was to meet yesterday to relax the terms of Regulation W. Chairman Martin made the further statement that he also had a call yesterday from Senator Ferguson with respect to the amendment and that he told the Senator that the Board would take the matter up today or Thursday and that if any action were taken the Senator would be informed.

Since his return to Washington yesterday, Chairman Martin added, he had been turning the whole matter over in his mind and had had discussions with other interested parties in connection with it, having in mind that if the regulation were relaxed with respect to automobiles, it would be necessary to take similar action with respect to other listed articles. Chairman Martin outlined the factors which he felt might be considered by the Board in reaching a decision to relax the regulation and the problem was discussed in the light of his comments and the views expressed by other

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members of the Board present, consideration being given particularly to the statement that might be made in the event action were taken by the Board to relax the regulation.

During the discussion the meeting recessed for lunch and reconvened at 3:35 p.m. at which time Messrs. Martin, Eccles, Szymczak, and Powell, Members of the Board; and Messrs. Carpenter, Secretary, Sherman, Assistant Secretary, Kenyon, Assistant Secretary, Thurston, Assistant to the Board, Thomas, Economic Adviser to the Board, Vest, General Counsel, Young, Director, Division of Research and Statistics, and Noyes, Director, Division of Selective Credit Regulation were present.

In a further discussion of the terms of Regulation W, during which Mr. Vardaman joined the meeting, Mr. Eccles stated the reasons why he felt the regulation should not be relaxed at this time and suggested that a letter be sent to Senator Maybank reviewing the basis on which the Board had formulated and administered the consumer credit regulation.

This suggestion was discussed at length, and at the conclusion of the discussion Chairman Martin suggested, and it was agreed unanimously, that Mr. Thurston should prepare a draft of letter to Chairman Maybank of the Senate Banking and Currency Committee in the light of the discussion at the meeting today for consideration by the Board at a meeting to be held on Thursday, July 5, 1951.

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:

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 29, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 2, 1951, were approved and the actions recorded therein were ratified unanimously.

Mr. Carpenter reported that the Comptroller of the Currency would issue a call on July 6, 1951, on all national banks for reports of condition as of the close of business on June 30, 1951, and that, in accordance with the usual practice and the Board's letter of June 12, 1951, a call would be made on July 6 on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition as of June 30, 1951.

The call to be made on behalf of the Board on July 6, 1951, was approved unanimously.

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

"In accordance with the request contained in your letter of June 28, 1951, the Board approves the designation of John J. Hoch as a special assistant examiner for the Federal Reserve Bank of New York."

Approved unanimously.

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

"In accordance with the request contained in your letter of June 28, 1951, the Board approves the appointment of John T. Seguin as an assistant examiner for the Federal Reserve Bank of New York."

Approved unanimously.



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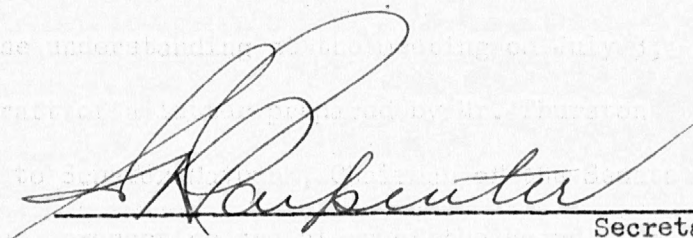
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Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"For your information and guidance, there is enclosed a copy of a memorandum dated June 27, 1951, received by the Board from Mr. John S. Bachman, Chairman of the Contract Finance Committee of the Department of Defense, setting forth the views of that Department with respect to certain qualifying conditions imposed by purchasers from subcontractors in giving consent to assignments by such subcontractors.

"In accordance with the last paragraph of the Defense Department's memorandum, it will be appreciated if you will advise us regarding the experience of your Bank concerning any such qualifications which may have been imposed in connection with assignments of defense production subcontracts. It will also be appreciated if you will report any instances of this kind which may come to the attention of your Bank."

Approved unanimously.

  
Secretary.