

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 16, 1951. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, 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. Townsend, Solicitor
Mr. Young, Director, Division of Research
and Statistics
Mr. Marget, Director, Division of Inter-
national Finance
Mr. Nelson, Assistant Director, Division
of Examinations

Reference was made to a proposed statement of Board policy submitted by Mr. Powell with regard to the granting of prior written consent by the Board of Governors for mergers or absorptions involving State member banks pursuant to Section 18(c) of the Federal Deposit Insurance Act. The statement had been the subject of discussion at meetings of the Board on July 5 and August 14, 1951, and at the latter meeting it had been agreed to defer the matter for further consideration at a meeting when Chairman Martin could be present.

Mr. Powell recounted the reasons for advocating the adoption of the statement of policy, pointing out that while it had always been the policy of the Board to consider carefully any merger or absorption presented

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to it for approval which involved diminution of bank capital and surplus, the proposed statement, which it was contemplated would be distributed to the Reserve Banks for their information, would indicate that the Board in addition would consider the inflationary aspects of the pay-off in cash of a group of stockholders as a factor affecting the public interest in a period of increasing defense demands. Mr. Powell said he believed it to be desirable that such an indication of Board policy be transmitted to the Reserve Banks so that when contemplated mergers were discussed with them informally before the plans of the merging institutions had progressed to the point of a public announcement, the Reserve Banks could inform them of the factors which would be taken into consideration when the proposal was submitted to the Board for approval. He went on to say that the matter of formulating such a policy had been broached by the Comptroller of the Currency and that he understood that the Comptroller's Office and the Federal Deposit Insurance Corporation had adopted a similar policy and wished to be assured that if they followed such a policy the Board would do likewise.

Mr. Vardaman stated that he felt the adoption of such a statement of policy applicable to only mergers and absorptions of banks would be unfair to the banking industry and that he would prefer to have a statement issued by Mr. Wilson, Director of the Office of Defense Mobilization, which would be applicable to business concerns generally. He went on to say that if such a statement of policy were to be adopted affecting banks

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only, the Board should be joined by the Comptroller of the Currency and the Federal Deposit Insurance Corporation, so that there would be no discrimination against the State member banks. Mr. Vardaman stated further that he had been unable to ascertain in conversations with Deputy Comptroller of the Currency Robertson and with Mr. Cook, Director of the Federal Deposit Insurance Corporation, that such a policy was contemplated by those agencies. If such assurances were obtained in writing, Mr. Vardaman said, he would be willing to go along with the adoption by the Board of the statement of policy, although he felt its contents should be available to any bankers who might inquire into the matter, rather than the Reserve Banks only.

Following a discussion of the matter it was suggested that letters be written to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation enclosing copies of the proposed statement of policy and inquiring whether it was consistent with their policy in similar cases.

This suggestion was approved unanimously, and in accordance with this action the following letter was sent under date of August 17, 1951, to the Honorable Preston Delano, Comptroller of the Currency, with a similar letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation:

"There is attached a statement of policy with regard to granting prior written consent for mergers or absorptions

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"when required pursuant to Section 18(c) of the Federal Deposit Insurance Act which the Board of Governors proposes to follow.

"It is contemplated that this statement of policy will be furnished the Federal Reserve Banks for their guidance in considering proposed mergers and absorptions affecting State member banks. However, before advising the Reserve Banks of this policy and in order to provide some uniformity in these matters, we would appreciate advice from you whether the attached statement of policy is consistent with the policy of the Office of the Comptroller of the Currency in such cases and whether any instructions with respect thereto have been given to your field offices for their guidance."

Mr. Vardaman referred to the forthcoming Presidents' Conference to be held in St. Louis, Missouri, September 27-29, at the time of the annual meeting of the National Association of Supervisors of State Banks, and stated that he wished the record to show that he opposed the Chairmen's or Presidents' Conferences meeting at any point other than Washington or a Federal Reserve Bank city when all of the members of the Board could be present. He went on to say that he particularly opposed the holding of a Presidents' Conference in connection with any convention, and that in his opinion the Presidents were devoting too much of their time to System committees and conferences.

Mr. Powell said that, in his opinion, there should be no objection to a meeting of the Presidents' Conference at any location which might be convenient to the Presidents, provided that arrangements were made for them to meet thereafter with the Board in Washington. He said he felt it was desirable for the Presidents to attend the meetings of the National

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Association of Supervisors of State Banks because of their regular working relationships with that body, that this pertained also to conventions of the American Bankers Association, and that, if anything, the Presidents should arrange to spend more of their time working on System committees where benefits might be derived from their experience with regional problems and their contact with bankers.

There was presented a memorandum dated July 31, 1951, from the Division of Examinations recommending approval without special conditions of the application of The Raleigh County Bank, Beckley, West Virginia, an insured bank, for membership in the Federal Reserve System. The memorandum stated that the Federal Reserve Bank of Richmond also recommended approval of the application without special conditions, but that the case might be considered of a borderline nature because of certain unfavorable aspects regarding the bank's condition, including a large amount of adversely classified loans, an excessive number of loans showing credit weaknesses or dormant status, and the management's rather liberal loan and collection policy. The memorandum indicated, however, that at the conclusion of the membership examination resolutions were adopted by the bank's directors which, if followed, would tend to improve the criticized conditions. The memorandum also stated that the bank had been a matter of concern to the Federal Deposit Insurance Corporation for several years and that in a letter written prior to the membership examination, the Federal Deposit Insurance Corporation's Supervising Examiner reviewed

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the institution's problems at length and stated that if the bank were admitted to membership in the System, the Corporation would expect to continue to examine the bank at such intervals as circumstances might warrant until the Corporation's anxiety about the risk was relieved as the result of definite and substantial improvement in the bank's condition, and until it had been demonstrated that the management was both willing and able to protect the interests of the Corporation and those of the bank's depositors.

Mr. Vardaman stated that he had reviewed the matter as the member of the Board having the assignment for the admission to membership of State banks, and that he could not recommend approval of the application because it involved a matter of cooperation with another national bank supervisory authority. He said that he felt the Board should not admit any bank to membership in the System without approval of the State banking authorities and the Federal Deposit Insurance Corporation unless it was shown that unusual circumstances were involved. Mr. Vardaman then referred to the statement of the Federal Deposit Insurance Corporation's Supervising Examiner that the Corporation intended to continue its examinations of the bank pending the correction of certain conditions deemed by the Corporation to be unsatisfactory, and suggested that such a case might serve as an opening wedge whereby the Federal Deposit Insurance Corporation would undertake to exercise its legal right

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to examine State member banks. He also stated that the record would show that the System had admitted a bank over the protest of the Federal Deposit Insurance Corporation, which felt compelled to continue its examinations and to police the bank in order to protect the interests of the Corporation, and that this might be a damaging record.

Mr. Powell said that the matter had been discussed with him as alternate to Mr. Vardaman during the latter's absence and that while he would not oppose Mr. Vardaman's recommendation in this case, he felt that the Board could not always be guided by the decision of another supervisory agency in deciding whether to admit institutions to membership. He went on to say, however, that he would not favor the admission of a bank where it appeared that the institution was seeking membership principally to escape examinations by the Federal Deposit Insurance Corporation.

With regard to the case in question, Mr. Powell noted that the directors of the bank recently passed resolutions which, if followed, should result in correction of most of the matters objected to by the Federal Deposit Insurance Corporation, and suggested that the application be deferred until such time as the Federal Reserve Bank of Richmond, upon further examination of the institution, might determine that the bank was adhering to the policies embodied in the resolutions.

This suggestion was approved unanimously, and in accordance with this action, the following letter was sent to Mr. Armistead, Vice President

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of the Federal Reserve Bank of
Richmond, under date of August 17,
1951:

"Reference is made to the application for membership of The Raleigh County Bank, Beckley, West Virginia, submitted with your letter of July 24, 1951.

"A review of the information submitted with this application indicates that at the time of examination the bank had a disproportionate amount of loans subject to criticism or in need of special attention and that most of the items have remained in the bank over extended periods of time due to the lack of proper credit and collection practices. It appears also that the credit policies of the management as well as the lack of satisfactory credit information have been subject to criticism by the supervisory authorities for some time and that only recently, during the examination, were resolutions adopted by the directors establishing sound lending policies with a view to correcting the unsatisfactory conditions.

"In the circumstances, the Board has decided to defer action on the application for membership until it can be determined more definitely that the policies recently adopted by the management will result in correcting the conditions which have been subject to criticism by supervisory authorities and that satisfactory policies will be maintained."

Mr. Evans reported that a suggestion had been received from President Leedy, of the Federal Reserve Bank of Kansas City, that Regulation X, Real Estate Credit, be further amended to provide a specific exemption from the Regulation of credits extended to builders, and the first purchasers from builders, who undertake to build a number of residences to be sold or leased to persons whose residences were destroyed or substantially damaged by the recent floods in Kansas, Missouri, and Oklahoma. He said that Mr. Leedy had been asked for suggestions as to safeguards against abuse of the proposed exemption, and also to keep the Board informed of steps being

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taken by local agencies, including States, cities, and other political subdivisions to provide financial and other assistance to flood sufferers. Mr. Evans said that he was presenting this at this time merely as a matter of information, and that following receipt of further advice from Mr. Leedy concerning the proposed exemption, a recommendation would be presented to the Board.

Mr. Powell commented on a letter received under date of August 13, 1951, by Mr. Riefler from Mr. Vernon L. Clark, National Director of the U. S. Savings Bonds Division of the Treasury Department requesting the support of the System in connection with the forthcoming savings bond campaign. Pursuant to that request, Mr. Powell said, arrangements had been made for an advertisement on the back cover of the August issue of the Federal Reserve Bulletin and an article in the September Bulletin. He also said that letters were being prepared for the signature of the Chairman to the Chairmen and Presidents of all Federal Reserve Banks, and he (Mr. Powell) had called Mr. Dodge, President of the Association of Reserve City Bankers, suggesting a promotion campaign through the Association which Mr. Dodge indicated he would carry forward. Mr. Powell also stated that plans were being made for a savings bond drive within the Board's staff during the month of September.

Mr. Martin stated that Secretary of the Treasury Snyder had expressed appreciation of the cooperation being received from the Board in

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connection with the savings bond campaign and that he would be glad to pass on to Mr. Snyder this additional information.

Mr. Evans reported that the Defense Housing Bill was passed yesterday by the House with provisions included which would result in a substantial relaxation of the terms of Regulation X, Real Estate Credit, and its companion VA and FHA restrictions, and that the bill would now go to conference for discussion of differences between the Senate and House versions of the bill. He said that he would be in touch with Mr. Foley, Housing and Home Finance Administrator, to find out what, if anything, could be done that might be helpful.

The meeting then recessed and reconvened at 4:40 p.m. with Messrs. Martin, Evans, Vardaman, Powell, Carpenter, Kenyon, Thurston, Riefler, Vest, and Benner, Assistant Director, Division of Selective Credit Regulation, present.

There was presented a telegram which had just been received from President Leedy, of the Federal Reserve Bank of Kansas City, quoting a letter received by him from Mr. Howse, Assistant to the Director, Office of Defense Mobilization, which stated that Mr. Howse felt it would be most helpful if the activities of the Federal agencies concerned with various financial aspects of the flood rehabilitation program in the Kansas-Missouri-Oklahoma area were coordinated to the fullest possible extent, that he would appreciate Mr. Leedy's serving as chairman of a committee of the Federal agencies, whose membership would include the

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Department of Agriculture, the Reconstruction Finance Corporation, the Housing and Home Finance Agency, the Veterans Administration, and the Federal Reserve System, as well as qualified citizens from the States of Missouri and Kansas, and that he would look to this committee for advice and recommendations on certain questions set forth in his letter. Mr. Leedy's telegram indicated that he felt he could not decline to serve, but that he would appreciate receiving the Board's suggestions.

After discussion, the following telegram to Mr. Leedy was approved unanimously:

"Your wire re your service as Chairman of Committee on Financial Problems of Flood Disaster. In response to your request for Board's suggestions, it concurs in your view that you could not decline to serve as Chairman. It is the view of the members of the Board that it would be helpful if Committee could be kept as small as possible and at the same time provide adequate representation."

At this point all of the members of the staff with the exception of Messrs. Carpenter 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 August 15, 1951, were approved unanimously.

Letter to Mr. Nosker, Assistant Cashier of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of August 15, 1951, the Board approves the designation of Frederick Lamont Carr as a special assistant

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"examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

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

"The Par List will be reprinted as of October 1951. No changes have been suggested as to form or content, and accordingly it will be printed in the same form as the present October 1950 List.

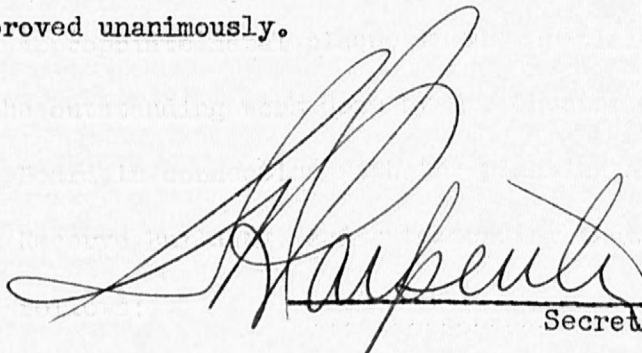
"Please mail, to reach the Board by September 17, a copy of your district portion of the present Par List, marked in red to reflect changes to time of mailing, and on October 1 telegraph any additional changes, which we will incorporate in proof copy of the Par List.

"Since delivery of the new Par List may not be made until somewhat late in the month, an October supplement to the present Par List will be issued as usual. Accordingly, information for October supplement should be submitted in usual manner."

Approved unanimously.

Memorandum dated July 25, 1951, from Mr. Allen, Director, Division of Personnel Administration, recommending that the appropriate account in the 1951 budget of that Division be increased by \$30 to cover the cost of uniforms for the Board's nurse.

Approved unanimously.



Secretary.