

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors in Washington on Thursday, October 4, 1951, at 2:00 p.m.

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Sproul, Williams, Gidney, Leach, Bryan, Young, Johns, Peyton, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.

Mr. Clement Van Nice, Secretary of the Conference of Presidents

Before this meeting there were distributed among the members of the Board and the Presidents copies of a memorandum of topics which the Presidents wished to discuss with the Board at this meeting. The topics and discussion in connection with each were as follows:

1. Inability of the Treasury Department to meet the coin requirements of the Federal Reserve Banks. Attention of the Conference was called to the findings of a recent survey by the Chairman of the Committee on Miscellaneous Operations indicating that all of the Federal Reserve Banks continue to experience increasing difficulty in obtaining from the United States Mints sufficient supplies of coin to meet the requirements of the banks and the public. It was pointed out that the inadequacy of

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the coin supply causes unfavorable reflection upon the Reserve Banks and the entire banking system. Although the Conference realizes that the Board is thoroughly conversant with the problem, the Presidents have placed this topic on the agenda of the joint meeting of the Board and the Presidents with a view to the possibility of the Board's wishing to call the Treasury Department's attention to the matter again and particularly to the fact that the situation has not improved.

Mr. Peyton said that this topic had been placed on the agenda for discussion at the joint meeting merely because it was a matter of continuing concern to the Reserve Banks and they wished to know whether there was anything which could be done to secure increased production to alleviate the shortage of coins.

Mr. Carpenter then read a memorandum dated today from Mr. Leonard, Director of the Division of Bank Operations, in which Mr. Leonard stated that he had had a conversation this morning with Dr. Howard, Assistant Director of the Bureau of the Mint, who said that he was feeling considerably better about the coin situation, that whereas they had obtained very little copper in September, they had allocations and were obtaining deliveries of copper this month, that they were concentrating on production of cents and hoped to turn out 225 million of these coins in October, and that this meant that they would be shipping blanks from Denver to Philadelphia, as well as using over-time. The memorandum also stated that according to Dr. Howard's reports and figures, the new tax on cigarettes would not increase the demand for pennies in all areas and in fact might

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reduce it somewhat, as in many cases it would require that one less coin be put in each package of cigarettes to be sold in vending machines. The memorandum further indicated that the Bureau of the Mint was still hampered somewhat by the question of monthly allocation of appropriations, but that everything possible was being done to obtain the use of as much of these funds as early as possible.

Chairman Martin stated that by virtue of his previous service with the Treasury Department he was cognizant of the struggle involved to obtain adequate appropriations for the Bureau of the Mint and also to get the necessary allocations to keep production moving. He said that he felt the Treasury was fully aware of the situation and was taking all steps possible.

Mr. Erickson noted that Mr. Leonard's memorandum of his conversation with Dr. Howard referred specifically to the situation with regard to pennies, whereas in the Boston area the critical shortage was in coins of higher denominations, particularly half dollars. Other of the Presidents indicated that this was the case in their districts as well.

Mr. Earhart discussed briefly the survey by the Committee on Miscellaneous Operations which he said revealed shortages in coins of all denominations, particularly pennies and half dollars, the situation varying from one Reserve Bank to another.

In response to a question by Mr. Carpenter as to the effectiveness of recent public appeals by the Banks to turn in unneeded coins,

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it was indicated that the appeal seemed to have had little appreciable effect for several weeks although there were later indications that it was having some results.

2. Place of Section 13b loans in the present credit situation and the extent to which they can and should be used either as part of the V-loan program or without such guarantees. The Conference considered the Board's telegram of September 20, 1951, to each of the Presidents, stating that pressure continues on Congress to make available additional credit facilities to small businesses engaged in the defense effort and not able to obtain necessary credit through banking channels even under the V-loan program, and further stating the Board's desire to explore again with the Presidents the place of Section 13b loans in the present credit situation and the extent to which they can and should be used as part of the V-loan program or without such guarantees. Although there was no general agreement among the Presidents as to the extent to which Section 13b loans can and should be used in the current credit situation, it was the consensus of the Conference that there should be no restriction of the Reserve Banks' present authority to grant such loans during the emergency period. The Conference will be pleased to discuss the matter further with the Board as requested.

It was observed that the Board's wire gives rise to the larger question of long-range policy with respect to such lending authority on the part of the Reserve Banks and it was suggested that this larger question, on which the Presidents expressed varying points of view, might well be a matter for discussion among the Board and the Presidents at a later date.

Mr. Peyton said that the Board's telegram had been considered at some length by the Presidents, who felt that there was a definite

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relationship between Section 13b loans and the V-loan program, that under present credit conditions the authority to make loans under Section 13b was quite desirable and should remain unchanged, but that the longer range policy with respect to lending authority of the Reserve Banks was a subject which merited further discussion in the future.

Mr. Szymczak stated that the matter of credit facilities for small businesses had arisen in the course of discussion with the Federal Advisory Council concerning the V-loan program and that the purpose of the Board's telegram was merely to explore what, if anything, could be done through the medium of Section 13b loans, not to indicate that the Reserve Banks necessarily should expand their lending operations. He went on to say it was his feeling that one effect of the Voluntary Credit Restraint Program might be to cause commercial banks to continue to extend credit to larger businesses which were top credit risks, while turning away smaller concerns, particularly irregular borrowers.

Mr. Norton said that evidence presented to Congress that small businesses did not have access to necessary credit through regular banking channels might result in the creation of further Government lending facilities for small business similar to the Reconstruction Finance Corporation.

Several of the Presidents discussed their respective Banks' operations under Section 13b, Mr. Gilbert pointing out that the Dallas

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Bank had considered the relationship of such loans to the Voluntary Credit Restraint Program and concluded that credit should not be extended except for defense loans, while Mr. Earhart said it was his opinion that the commercial banks were doing a good job in taking care of credit needs for defense purposes and that there was not a need for a Government institution to step into the picture actively.

Mr. Williams stated that the Philadelphia Bank had 32 Section 13b loans outstanding, all but five of which related to defense, and observed that the situation varied from district to district. Mr. Gidney referred to the cases of two small contractors who could not get assistance from regular banking sources and were aided by the Cleveland Bank, and said that he deemed such circumstances an excellent spot for the Reserve Banks to assist and hoped that they would continue to do so.

In answer to an inquiry by Chairman Martin, Mr. Bryan said that the Atlanta Bank had been successful to date in persuading commercial banks to arrange credit pools to take care of large loan applications, but that the bank might get three or four large applications, which if granted, would exhaust the Bank's Section 13b lending resources.

3. Enforcement of Regulations W and X. It was noted by the Conference that the Board had requested that the enforcement program for Regulations W and X be made a topic of discussion for the joint meeting of the Board and the Presidents. The Presidents will welcome such a discussion and suggest that the Board may wish to consider as

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a possible basis for such discussion a general feeling expressed by the Conference that, while adequate enforcement of the Regulations is recognized to be a necessity, enforcement policies which emphasize reasonable compliance with the Regulations rather than those which suggest a punitive attitude on the part of the System will be most desirable and effective. In view of the action of Congress in its recent adoption of the Defense Production Act amendments, the worsening climate of public opinion toward the Regulations, and the apparent confusion as to the most desirable enforcement procedures, the Conference believes that the Board may wish to consider specifically the possibility of greater reliance on such enforcement methods as disciplinary hearings, injunctive proceedings, and forfeiture and suspension of licenses in lieu of dependence more largely on criminal prosecution.

Mr. Norton, speaking as alternate for Mr. Evans, the member of the Board having the assignment for consumer credit matters, said that Mr. Evans had expressed himself as much in favor of the current Regulation W enforcement program. He noted that there were approximately 180,000 Registrants, that the Reserve Bank investigators, numbering about 150, had made some 6,000 investigations, and that approximately 50 cases of violations had been referred to the Board. Mr. Norton said that the Board's Solicitor was of the opinion that violators of the Regulation should be prosecuted in fairness to those abiding by the Regulation, although he (Mr. Norton) recognized that others might feel this was too severe a policy. He also mentioned that cases reported by the Reserve Banks indicated a lack of uniformity among the Banks in enforcement procedures.

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Mr. Norton also said that the Board's Solicitor had come to the conclusion, which seemed to be concurred in by some Reserve Bank representatives, that injunctive proceedings were no longer of much effect since they tended to encourage violators to continue their practices until apprehended without fear of prosecution.

Mr. Johns said that before the System Regulation W conference held last month his Bank, which had been conducting its enforcement program with a view primarily to obtaining compliance by what it considered appropriate action in each case, felt satisfied that this was an adequate program, but from reports from members of his staff who attended the conference, it appeared that the tenor of the program had changed substantially and that the policy was now to place emphasis on criminal prosecution of violators by reference of cases to the Department of Justice. He said that he failed to understand why it was believed that injunctive proceedings had lost their usefulness, since this type of proceeding was still used by the Department of Justice in many instances, and pointed out that if investigators for the Reserve Banks were to be required to take steps in the direction of criminal prosecution, in the manner which appeared to have been suggested at the System conference, it would be necessary for them to make customer contacts in many cases, particularly since he understood that a representative of the Department of Justice had stated at the conference that the Department would not

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accept criminal cases which did not incorporate testimony from customers. On the subject of customer contacts, Mr. Johns pointed out that careful consideration should be given to this practice because the good will of a Registrant could easily be damaged by the questioning of the firm's customers by Government investigators.

Mr. Johns said he hoped that the System would not depart from its previous general objective of obtaining compliance, although he realized that in a few flagrant cases more drastic measures were necessary.

Several of the other Presidents expressed sentiments similar to those voiced by Mr. Johns, stating that while they believed in due enforcement of the Regulation so long as the System was called upon to administer it, they felt that the System's relations could be better preserved if emphasis remained on achieving compliance with the Regulation, as was the case when Regulation W previously was in effect, and that all but the most flagrant violations could be handled by the Reserve Banks in such a manner as to obtain the desired degree of compliance without resort to criminal prosecution. Several typical cases were cited in this connection.

Mr. Norton said that the Board was interested to have the views of the Presidents and would be glad to consider the enforcement program in the light of their comments.

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4. Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report (Patman Subcommittee). In expectation that the Federal Reserve Bank Presidents will in the near future receive requests to reply to questionnaires prepared for the use of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report (Patman Subcommittee), the Presidents agreed that machinery should be set up on a System basis to coordinate the preparation of such of the desired information as would entail unnecessary duplication of work if prepared by each Reserve Bank independently. The Conference wishes to inform the Board that the Conference Committee on Committees has appointed a committee from the Conference consisting of Messrs. Erickson (Chairman), Sproul, and Williams for this purpose. The Conference would welcome further suggestions as to procedure in this matter and a general discussion of the entire subject of the Patman Subcommittee investigation in accordance with the Board's request that this topic be placed on the agenda for the joint meeting of the Board and the Presidents.

During the meeting there were distributed to the Presidents copies of the Subcommittee questionnaire directed to the Reserve Banks, and it was stated that the formal transmission of the questionnaire was expected next week.

Chairman Martin then reviewed the substance of a conversation which he had last Friday with Representative Patman, Chairman of the Subcommittee, regarding the Subcommittee inquiry. He also said that the lines of procedure set up by the Presidents to handle the questionnaire appeared proper and should prove helpful, and noted that Dr. Henry Murphy,

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chief of staff of the Subcommittee, had taken a constructive attitude in his conversations with members of the Board's staff concerning the questionnaire addressed to the Board.

5. Executive training and development programs and plans for the replacement of officers retiring during the next few years. The Conference noted the reports on the executive training and development programs of the twelve Reserve Banks, covering the October, 1949-September, 1951 period, which reports had been distributed to the Presidents by the Chairman of the Committee on Personnel. The suggestion that the Committee develop further information on the subject through specific inquiries on certain programs after further study by the Committee members of these reports was accepted and it was agreed executive training and development reports would hereafter be submitted to the Committee annually for distribution to the Presidents. Pursuant to the Board's request, the Conference will welcome further discussion of this general subject at the joint meeting of the Board and the Presidents.

Mr. Norton said that this topic had been placed on the agenda to draw the attention of the Presidents to the fact that the Board was very interested in programs for the training of personnel. He cited the difficulty of the Board in obtaining suitable personnel at the present time, spoke of training programs now contemplated, and noted that the situation would deteriorate further should the manpower situation worsen. Mr. Norton said he presumed the same difficulties were confronting the Reserve Banks and said that while the Board realized that training programs, particularly executive training programs, were

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not something which could be developed immediately, it was interested in the institution of long-range programs, which he understood were now in effect or under consideration at several of the Banks.

Mr. Peyton said he believed the Reserve Banks recognized the points involved, that some had instituted programs, and that they would welcome any suggestions the Board might have for implementation of such programs.

Mr. Norton then withdrew from the meeting.

6. Continuance of existing group life insurance policies after effective date of proposed non-contributory group insurance. In connection with discussion of the provision of an active service death benefit for Federal Reserve employees through the purchase of group insurance, the Conference discussed generally, but without coming to a formal declaration of its attitude, the question raised by the Board as to whether existing group life insurance contracts covering employees of certain of the Reserve Banks (and of the Board of Governors) should be continued after the effective date of the proposed contract to provide group life insurance for all Federal Reserve employees on a noncontributory basis. The Conference would appreciate the Board's expressing its opinion on such continuance and, in accordance with the Board's request, has placed the topic on the agenda of the joint meeting of the Board and the Presidents.

Mr. Peyton called upon Mr. Erickson, who said it was the sense of the Presidents' Conference that, upon the institution of the proposed non-contributory group insurance plan, the Reserve Banks should terminate

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their contributions to existing group life insurance contracts and assume no further liability, although it was presumed that if employees wished to go ahead with group plans under which they would make their own contributions with no liability on the part of the Banks, there would be no objection.

In response to a question whether this coincided with the views of the Board, it was stated that the Board had not yet had an opportunity to consider the matter, but that it would be considered, and the Reserve Banks advised shortly.

Replying to an inquiry as to when the proposed group insurance plan might become effective, Mr. Carpenter stated that steps to work out the final details of the arrangement were in process and that it was hoped the plan could be put into effect the first of November.

7. Possible conference of bank supervisory agency representatives and others to discuss the problem of bank defalcations. The Conference noted the current trend toward increasing numbers of bank defalcations and agreed to suggest to the Board for its consideration the possibility of the Board's inviting in the reasonably near future representatives from all State and Federal supervisory agencies, the National Association of Bank Auditors and Comptrollers, and the audit departments of the Reserve Banks, and selected corporation treasurers and perhaps others to a proposed conference for the purpose of discussing ways and means which might prove effective in meeting the defalcation problem. The Presidents suggest that such a conference might perform a public service which would be looked upon with favor by both the banking world and the general public and are interested in receiving the Board's reaction to the proposal.

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Mr. Peyton said it was the thought of the Presidents' Conference that a meeting of the type indicated might be helpful in working out some procedure whereby better assurances might be given as to the auditing of commercial banks, and Mr. Gidney added that it might contribute to a more uniform position among the bank supervisory agencies concerning the examination of banks.

Mr. Powell stated that the Board's Division of Examinations had called to his attention the fact that under current examining procedures many defalcations of the type which have occurred recently would ordinarily not be apprehended. He said that the National Association of Bank Auditors and Comptrollers had been concerned with this matter and had raised the question whether bank examinations should or should not include audit features. Mr. Powell said he felt the Board's staff would welcome a conference to discuss the problem of bank defalcations and that it should prove productive.

The suggestion was advanced that if steps were taken to hold such a conference it might be preferable to have it called jointly by all the supervisory agencies rather than by the Board.

8. Taxation of banks, particularly as related to their ability to improve their capital positions out of earnings and to attract new capital funds. The attention of the Conference was called to the apparent inequities of the present Federal tax laws which seem to place a disproportionate tax burden on commercial banks and consequently to reduce their ability to strengthen their capital

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positions. A statement by Morris A. Schapiro of M. A. Schapiro and Co., Inc., New York City, filed with the Senate Finance Committee in connection with its hearings on tax bill H.R. 4473, August 2, 1951, which statement was published in August, 1951, by M. A. Schapiro and Co., Inc., under the title, "How Commercial Banks are Affected by Federal Taxation", and covering this general subject, was noted. The Conference has placed this subject on the agenda for the joint meeting of the Board and the Presidents for discussion with a view to the Board's giving consideration to possible study of the question and after such study, if it is felt desirable, to consulting with representatives of other supervisory agencies for the purpose of exploring possible approaches toward obtaining corrective legislation in this respect.

Mr. Sproul said that the interest of the System in the capital situation of banks indicated that this might be a matter which should be investigated. Further exploration of the matter to verify Mr. Schapiro's statements would be necessary, he said, before the System could decide what, if any, action was necessary or desirable.

It was indicated that the Board would consider the advisability of a study of the question.

9. Voluntary Credit Restraint Program. The Conference would like to have Governor Powell report on the current status of the program for voluntary credit restraint as the Board has indicated he would be willing to do at this joint meeting. In this respect, the Conference would be particularly interested in discussing with the Board those actions being taken by various Government agencies which actions, if continued, may tend to undermine the effectiveness of the Voluntary Credit Restraint Program, which depends so largely on the morale of the Committee members and others participating in the Program.

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Mr. Powell referred to certain types of loans made by the Farmers Home Administration under authority given that agency which had come to his attention, but said that aside from these he knew of nothing but sporadic cases where Government agencies were making loans which seemed contrary to the principles of the Voluntary Credit Restraint Program. He stated that several months ago he had addressed letters to the heads of Government lending agencies soliciting their support of the Program and that he had on file replies which indicated that the agencies were cognizant of the Program and were conforming their lending policies to it. Mr. Powell also referred to the report of a special committee named by the President to study the practices of Government lending agencies and said that copies of this report, which recommended that the policies of the Voluntary Credit Restraint Program be followed, had been transmitted through the Bureau of the Budget to the agencies concerned. Whenever complaints were received from bankers or others which cited specific cases where Government lending agencies were not adhering to the principles of the Program, Mr. Powell said, he transmitted the letters to the particular agency with a request that the circumstances be investigated.

Mr. Leedy stated that difficulty in the Kansas City District had been caused by a Department of Agriculture booklet which called for county meetings under the sponsorship of the Department and contained

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a statement to the effect that banks can not serve the needs of agriculture adequately, partially because of restrictions imposed by the Voluntary Credit Restraint Program.

Mr. Powell said the booklet in question had been brought to his attention by the American Bankers Association and State bankers' associations but that an official of the Department of Agriculture in Washington, upon inquiry, disclaimed knowledge of the paragraph referred to. Mr. Powell went on to say that while incidents of this nature provided a source of irritation to bankers participating in the Program, he did not feel that they were of severe damage to the Program as a whole.

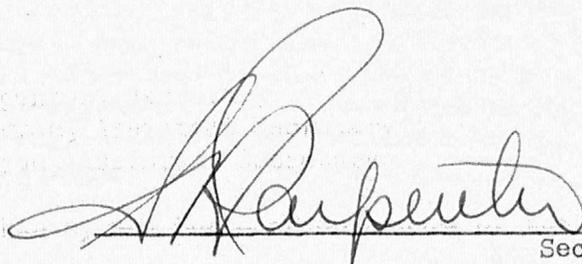
In response to a comment by Mr. Sproul on reports concerning activities of the Federal Housing Administration in urging its members aggressively to seek loans, which seemed contrary to the spirit, if not the letter, of the Program, Mr. Powell said the National Committee had adopted the position that it could not interfere with competition if within the scope of Governmental regulations or the principles of the Program as presently set forth, and that if the terms of the Program did not stop the extension of undesirable credit, the rules should be tightened.

Chairman Martin referred to the leadership given to the voluntary program by Mr. Powell and said that in his opinion the program

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was vital and that he hoped the Presidents would see fit to help Mr. Powell in every way possible.

A handwritten signature in cursive script, appearing to read "A. Carpenter". The signature is written in dark ink and is positioned above a horizontal line.

Secretary.