

Minutes of actions taken by the Board of Governors of the
Federal Reserve System on Tuesday, October 9, 1951.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Norton
Mr. Powell

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated October 1, 1951, from Mr. Leonard, Director,
Division of Bank Operations, recommending that Raymond C. Kolb, Chief
of the Machine Tabulation Section in the Division of Administrative
Services, be transferred to the position of Technical Assistant in the
Division of Bank Operations, with an increase in basic salary from \$5,600
to \$6,400 per annum, effective as of the date he enters upon duty in the
Division. The memorandum also stated that the Division of Administrative
Services was agreeable to this transfer.

Approved unanimously.

Memorandum dated October 2, 1951, from Mr. Bethea, Director,
Division of Administrative Services, recommending an increase in the
basic salary of Claiborne Johnson, Senior Mail Clerk in that Division,
from \$3,355 to \$3,475 per annum, effective October 14, 1951.

Approved unanimously.

Memorandum dated October 4, 1951, from Mr. Bethea, Director,
Division of Administrative Services, recommending increases in the
basic annual salaries of the following employees in that Division,
effective October 14, 1951:

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<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Harry E. Kern	Supervisor, Procurement Section	\$4,200	\$4,325
Arad B. Shipp	General Mechanic	3,300	3,380
Frances T. Kurtz	Operator, Key Punch	2,730	2,810
Catherine Gallagher	Cafeteria Helper	2,260	2,330

Approved unanimously.

Memorandum dated October 4, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending an increase in the basic salary of Miss J. E. Lally, Deputy Disbursing Officer in that Division, from \$5,075 to \$5,200 per annum, effective October 14, 1951.

Approved unanimously.

Memorandum dated October 2, 1951, from Mr. Leonard, Director, Division of Bank Operations, recommending increases in the basic annual salaries of the following employees in that Division, effective October 14, 1951:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John J. Hurley	Analyst	\$5,225	\$5,350
Loretta M. Goheen	Supervisor, Federal Reserve Bank Statement Unit	4,450	4,575
John M. Poundstone	Settlement Clerk	3,950	4,075
Rita S. Boyer	Statistical Assistant	4,075	4,200
Margaret C. Grisct	Clerk-Stenographer	3,600	3,725
Dorothy Werner	Clerk-Stenographer	3,600	3,725
Frances L. Franklin	Statistical Clerk	2,730	2,810
Carl M. Skinner	Clerk	3,050	3,130

Approved unanimously.

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Memorandum dated October 5, 1951, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Mrs. Dorothy F. Burton as a Clerk-typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,730 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated July 11, 1951, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Mrs. Dorothy South Projector as an Economist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$5,400 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved, Mr. Vardaman voting
"no".

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring further to your letter of September 12, 1951, the Board of Governors authorizes your Bank to proceed with the preparation of plans for the addition of eight stories to the head office building in accordance with the program outlined by the architects in the attachment to your letter.

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"It is suggested that before the final plans and specifications are prepared, the preliminary plans be submitted to the Board. This is in accordance with the usual procedure, under which the Board's consulting architect reviews the preliminary plans and outline specifications and offers any comments he may have at that stage in the development of the construction program.

"The Board agrees with the position of your Bank that it is desirable to proceed with the preparation of plans in order to be prepared to undertake construction as soon as possible consistent with the general policies regarding the timing of construction of Federal Reserve Bank buildings. The Board deferred action on the proposal outlined in your letter to engage at this time a contractor and have him proceed with the procurement of the necessary materials, with the idea that this could be taken up later when the materials situation is clarified."

Approved unanimously.

Letter to Mr. Latham, Vice President of the Federal Reserve Bank of Boston, reading as follows:

"In view of your recommendation and the information contained in your letter of October 3, 1951, the Board of Governors extends until April 10, 1952, the time within which the Norfolk County Trust Company, Brookline, Massachusetts, may establish branches in Medfield, Sharon, and East Milton, Massachusetts, provided a like extension of time is granted by the State authorities."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In view of the recommendation contained in your letter of October 5, 1951, the Board of Governors extends to November 28, 1951, the time within which The Citizens

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"Bank of Aztec, Aztec, New Mexico, may accomplish withdrawal from membership pursuant to the waiver granted by the Board on June 29, 1951."

Approved unanimously.

Letter to Mr. Gaylord A. Freeman, Jr., Vice President, The First National Bank of Chicago, Chicago, Illinois, reading as follows:

"The draft of the proposed report of your sub-committee of the Illinois Bankers Association, received with your letter of August 10, 1951, has been reviewed with interest and the opportunity to offer suggestions for correction or amendment is sincerely appreciated. It is assumed that the other supervisory agencies have been given the same privilege and our comments will be directed primarily to the position of the Federal Reserve System and particularly to the apparent interpretation of the Board's letter of May 2, 1951.

"Before discussing our suggestions, we wish to compliment your Committee on the scope of its effort and the many worth-while findings and conclusions with which we find ourselves in complete agreement. In particular, we are impressed by the emphasis you place upon the responsibility of the individual banker to evaluate the adequacy of the capital of his own institution. The report should stimulate thinking and produce favorable results.

"While the Board's letter of May 2 is published in full as an exhibit in the appendix, it does not seem fair or proper to quote a portion of the letter on page 9 of the report with the elimination of an important modifying sentence and without indication that such an elimination has been made. The ensuing discussion (pages 10-12) appears to be based upon the assumption that there is a requirement that a bank shall have capital equal to at least 25 per cent of its risk assets and 7 per cent of its total assets. This 'limitation' of risk assets is referred to as 'unnecessarily restrictive' and, in the footnote, reference is made to the stringency of the 'rule'. Incidentally, in the same paragraph, reference is made to the current average capital ratio as being the highest achieved in the past eight years. The statement is correct with respect to the ratio of capital to deposits

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"but this ratio should not be confused with the so-called risk-asset ratio which has been declining and was at the lowest point at the end of 1950.

"On the basis of the assumption that the System re-quires that State member banks maintain capital equal to 7 per cent of total assets and 25 per cent of risk assets it is conjectured that the System has considered banks in a very unsound position for the past eight years or that the capital requirement is being used for some fiscal policy such as 'deflating the economy' or 'to accomplish a deflationary restriction of credit.'

"The fact is that the System has made no requirement that capital be maintained in the proportions described and this fact is clearly demonstrated by the statistics appearing in the report. The use of the stated ratios as a 'screening' device in the process of analysis does not involve the establishment of a standard or basis of requirement but serves as an admittedly rough and arbitrary indicator of the need for further analysis of the many factors affecting the final determination with respect to the adequacy of the capital of an individual institution.

"It appears to have been assumed also, (pages 19 and 20) that the System has no authority to require that a State member bank's capital be increased. Practically all State member banks are subject to the condition of membership which was quoted in the Board's letter of May 2, 1951. This condition is prescribed pursuant to Section 9 of the Federal Reserve Act and is further amplified in footnote 7 of Regulation H as follows:

'If at any time, in the light of all the circumstances, the aggregate amount of the bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the bank's aggregate deposit liabilities and other corporate responsibilities.'

"The Board regrets that the purpose and meaning of its letter of May 2, 1951, was not made clear or, at least, has been misunderstood but feels that the interpretation of the position and some of the motives of the System as presently set forth in the report are not in accordance with fact and hopes the Committee will see fit to revise

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"the report. As the misunderstanding which leads to misrepresentation appears to be fundamental, no attempt has been made to point out exceptions which might be taken with respect to wording at many points within the report but the staff of the Board or the Reserve Bank will be glad to work with your Committee in this regard if you would care to have their assistance."

Approved unanimously.

Letter to Board of Directors, Bankers Trust Company, New York, New York, reading as follows:

"There are enclosed two copies of the report of examination of the London Branch of Bankers Trust Company made as of June 2, 1951 by examiners for the Board of Governors of the Federal Reserve System. This examination was made jointly and in cooperation with examiners for the Banking Department of the State of New York. The second copy of the report is for the information and files of Mr. R. H. Oxley, Vice President and Manager in charge of the London Branch.

"Your courtesy in acknowledging receipt of the report will be appreciated."

Approved unanimously, for
transmittal through the Federal Reserve Bank of New York.

Letter to Mr. Cook, Vice President and Cashier of the Federal Reserve Bank of Dallas, reading as follows:

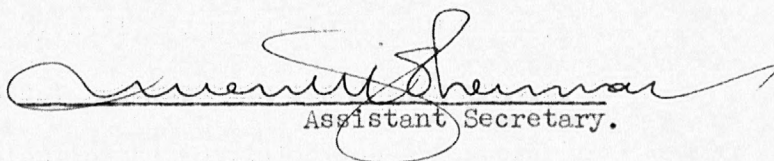
"This refers to your letter of October 3, 1951, concerning section 5(f) of Regulation X. You asked about a case where an operative builder of residences enters into a contract to sell which conforms with the requirements prescribed in section 5(f) and who simultaneously enters into a separate contract with the buyer to lease the residence temporarily to the buyer at a stipulated rental. No part of the rental payments are applied to the purchase price.

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"Under these facts, we agree that such a contract to sell is exempt from Regulation X under the provisions of section 5(f) of the regulation. The mere fact that the prospective vendee is to occupy the residence as a lessee during the six months period does not affect the applicability of section 5(f). Moreover, we agree that in cases of this kind an element of good faith must be present. Our answer would not necessarily be applicable to similar transactions where the factual situation might be different such as, for example, if the sale price in such a contract to sell were not bona fide, but reflected an evasive side agreement to consider the payments of rent as payment of any part of the sale price."

Approved unanimously.


Assistant Secretary.