

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 25, 1952. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on January 21, by the Federal Reserve Bank of San Francisco on January 22, by the Federal Reserve Bank of Atlanta on January 23, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, and Dallas on January 24, 1952 of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Norton referred to recent comments in the press regarding the probable number of housing starts during 1952, stating that the articles appeared to have been based on statements by officials of the Office of Defense Mobilization and the Housing and Home Finance Agency having to do with the estimated availability of materials, that such statements were

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not intended to indicate that a target figure for the year had been established, and that representatives of the Board had not participated in press conferences at which such statements might have been made, nor in interagency conferences at which such statements were discussed.

Mr. Norton then called attention to a letter addressed to the Secretary of the Board under date of January 18, 1952 by President Williams, of the Federal Reserve Bank of Philadelphia, commending Mr. Farrell, Chief of the Reserve Bank Budget and Expense Section, Division of Bank Operations, on the high quality of Mr. Farrell's presentation of the subjects of budgeting, comparative costs, expense control, and allied matters at a meeting of the Bank's directors the previous day. The letter had been placed in circulation to the offices of the members of the Board.

At the meeting of the Board on January 17, 1952 it was agreed that in the absence of some development requiring earlier consideration action on the application made on behalf of The Continental Bank and Trust Company, Salt Lake City, Utah, for membership in the Federal Reserve System, would be postponed until after the return of Mr. Vardaman in February. Subsequently, advice was received from the Federal Reserve Bank of San Francisco in a wire dated January 24, 1952, that the stockholders of The Continental National Bank and Trust Company were to meet on January 28 to consider the conversion of the bank to a State institution, and it had been agreed that in the circumstances the application should be further discussed by the Board at this meeting.

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Chairman Martin said that Mr. Vardaman had discussed the matter with him by telephone yesterday and had stated that he continued of the opinion that the application should be approved for the reasons set forth in the minutes of the meeting on January 17 and also in view of the fact that the Board in 1950 had opposed a proposed certification of the national bank by the Comptroller of the Currency under section 30 of the Banking Act of 1933.

In a discussion during which varying views were expressed as to the action to be taken, reference was made to the low capital position of the bank in relation to its total assets and, particularly, to its risk assets, to the indebtedness to the bank and affiliated banks of Chairman of the Board Walter E. Cosgriff and members of his family, principally incurred for the purpose of acquiring controlling stock interests in other banking institutions, to the generally favorable asset condition of the bank, and to probable motives underlying the desire of the management to convert to a State charter. Consideration also was given to the criticism directed at the bank by the Office of the Comptroller of the Currency during the past several years, to the failure of the management to effect the changes requested by that office, to discussions between the management of the bank and representatives of the Federal Reserve Bank of San Francisco since the filing of the membership application on behalf of the proposed State bank, to certain informal commitments given by Mr. Cosgriff in the course of such discussions, and to the reasons why the Reserve Bank recommended approval of the application.

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It was suggested that, in addition to the conditions of membership proposed by the staff, there be included a further condition requiring that Mr. Cosgriff and members of his immediate family eliminate their indebtedness to the bank within two years after the date of its admission to membership. It was also suggested that the letter to the directors of the national bank indicating approval by the Board of the application for membership made on behalf of the State bank make it clear that the Board in approving the application had relied upon assurances by Mr. Cosgriff that indebtedness of himself and his family to affiliated banks would be liquidated within two years and that dividends would be restricted to their current level until capital funds were substantially increased; and in addition that approval of the application should not be taken to imply approval of the bank's capital position or that the Board would not insist on the correction of any undesirable conditions.

Thereupon unanimous approval was given to the application for membership made on behalf of The Continental Bank and Trust Company subject to the following conditions of membership:

- "1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condi-

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"tion of its assets and to its deposit liabilities and other corporate responsibilities, and its capital shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System.

3. Such bank shall require that the indebtedness of Walter E. Cosgriff, Enid B. Cosgriff, Mildred D. Cosgriff and Marian S. Sturdevant to the bank be fully paid within two years after date of admission to membership.
4. Prior to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate losses of \$4,044.65, as shown in the report of examination of The Continental National Bank and Trust Company of Salt Lake City, Salt Lake City, Utah, as of October 22, 1951, made by an examiner for the Federal Reserve Bank of San Francisco."

Unanimous approval was also given to the inclusion of the following paragraph in the letter to the applicant bank:

"In approving this application the Board of Governors has considered and relied upon the assurances given by Mr. Cosgriff that his indebtedness and that of his immediate family to the affiliated banks in which they own a majority stock interest will be liquidated within two years and that the dividends of The Continental Bank and Trust Company will not exceed \$108,000 per annum until the capital funds of the bank have been increased through retention of earnings by a substantial amount; at least \$600,000 to \$700,000. The Board feels that the present capitalization of the bank is low in relation to its total assets and, particularly, in relation to the amount of its risk assets (total assets less cash and Government securities). Therefore, the Board wishes to emphasize the fact that its present action in approving the application for membership is not to be construed as approving in any way the bank's capital position or as indicating that the Board may not hereafter insist on an increase in the bank's capital or on the correction of any undesirable condition."

The following letter to the Federal Reserve Bank of San Francisco was also approved unanimously:

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"The Board of Governors of the Federal Reserve System approves the application made on behalf of The Continental Bank and Trust Company, Salt Lake City, Utah, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of The Continental National Bank and Trust Company. Two copies of such letter are enclosed, one of which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Utah for his information.

"Before issuing stock in the Federal Reserve Bank of San Francisco to the State institution, you are requested to satisfy yourself that a charter has been issued and that the conditions of membership were accepted after the bank was incorporated. At such time your Counsel should review all steps taken in the organization of the bank and certified copies of all organization papers should be forwarded to the Board together with a copy of Counsel's opinion.

"It is understood that upon conversion all necessary steps, required by the laws of the State of Utah, will be taken to enable the bank to conduct a general trust business.

"It is noted that certain unfavorable factors such as low capital structure, heavily loaned condition, and indebtedness of the Cosgriff family, have been brought to the attention of the management of the bank. Your attention is called to the comments on these matters contained in the letter to the board of directors of the bank and it is requested that you follow them closely, advising the Board of Governors of any important developments."

Mr. Powell reported that in accordance with an understanding at a recent meeting of the Board in executive session, he spent yesterday at the University of Michigan Survey Research Center, which conducts the annual Surveys of Consumer Finances under contract with the Board. He said that he was very much impressed with the competence of the personnel in charge of the surveys, that the staff appeared to be exercising due care in making expenditures and in allocating costs to the particular survey in question,

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and that he remained of the conviction that the surveys were worthwhile and that a good job was being done on them for the Board.

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:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 21, 1952, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 22, 23, and 24, 1952, were approved and the actions recorded therein were ratified unanimously.

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

"Thank you for your letter of January 18, 1952, indicating that your bank is prepared to make Mr. John F. Pierce, of your Bank Examinations Department, available as an adviser to the Central Bank of Ceylon for a period of one year. We have cabled Mr. Exter requesting that he confirm to you his Bank's acceptance of the terms which will govern Mr. Pierce's assignment."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable John Sparkman, Chairman, Select Committee on Small Business, United States Senate, Washington, D. C., reading as follows:

"Concerning your letter of January 11, I want to assure you that the Board's staff will be glad to be of

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"whatever assistance it can in preparing certain credit and banking materials for the use of the Senate Small Business Committee in its coming hearings on competition in the economy.

"It is my understanding that Mr. Henderson, Staff Director of the Committee, has been in touch with our staff and that mutually satisfactory arrangements for the materials desired are being worked out."

Approved unanimously.

Letter to Mr. J. L. Gleason, Secretary, Montana School Boards Association, Box 669, Livingston, Montana, reading as follows:

"This is in reply to your letter of January 14, with which you enclosed a copy of a letter written by you to the American Bankers Association in protest against collection charges assessed by banks for warrants in payment of school expenses.

"We judge from your letter to the American Bankers Association that you are familiar with the practices of banks in levying service charges for the collection of checks, and that your objections arise principally because of the amount of the charge in the case of school warrants. The amount of a bank's service charge is in general related to the amount of effort and expense it must undertake in collecting the funds due for any particular item. It is important in this connection to bear in mind that a bank in effect lends the money to its customer until it can effect collection of the funds called for by a check or other instrument. Even in the case of checks, for which there are in existence well-routinized systems for the expeditious clearing of an extremely large number of pieces, a bank incurs clerical and administrative expense for which it frequently would be out-of-pocket if it did not rely on a schedule of service charges. These expenses are likely to be larger in the case of school warrants, which, since they do not constitute a claim on another bank, are not readily handled through the clearing mechanisms available for checks. Also, the amount of effort involved in effecting collection does not necessarily run parallel to the face amount of the warrant; it may be just as costly to the bank to collect a warrant for \$1 as a warrant for \$1,000.

"None of the regulations of this Board prevents a bank from levying charges to reimburse itself for its expenses of collection.

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"Section 16 of the Federal Reserve Act provides that 'nothing herein contained shall be construed as prohibiting a member bank from charging its actual expenses incurred in collecting and remitting funds, or for exchange sold to its patrons'. That section also provides for the fixing of such charges by this Board. However, no schedule of charges has been established because the expenses involved vary among individual banks, among different parts of the country, and among the particular items handled.

"We trust that the explanation we have given will throw new light on the situation which may mitigate your annoyance. It seems to us that the best way to alleviate the difficulty would be to make some arrangement whereby out-of-State payments by school districts might be made in the form of checks, which thus could readily be handled through the usual clearance systems."

Approved unanimously, together
with the following letter to the
Honorable Wesley A. D'Ewart, House
of Representatives, Washington, D. C.:

"This is in reply to your letter of January 18 regarding a protest you have received against a collection charge of \$1 for the handling of school warrants.

"We have received a similar protest directly from Mr. J. L. Gleason, Secretary of the Montana School Boards Association. It seems probable that the protest of which you speak also came from Mr. Gleason, but in any event we believe the problem is the same in each case and that our reply to Mr. Gleason might be useful to you in responding to your constituent. We are glad to send a copy of that reply to you herewith.

"For your information, we understand that some difficulty has been experienced in connection with the handling of school warrants due to the fact that in some cases they are issued in anticipation of tax receipts and thus are not readily collectible."

Letter to Mr. Cecil B. Highland, President, The Empire National Bank, Clarksburg, West Virginia, reading as follows:

"This refers to your letter of January 9, 1952, concerning section 11(k) of the Federal Reserve Act which provides

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"in part that funds held in trust by a national bank exercising trust powers 'shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Board of Governors of the Federal Reserve System.' You inquire whether compliance with this provision of law will be effected by a proposed arrangement whereby bonds belonging to your bank are placed in custody with a New York City correspondent bank and held under an agreement between your bank and its trust department relating to the segregation of such bonds for the protection of trust funds deposited in the banking department of your bank.

"Your attention is invited to a ruling published in the 1919 Federal Reserve Bulletin at page 1156, reading as follows:

'The Board has ruled that a receipt covering United States Liberty loan bonds, issued by the Federal Reserve Bank and payable on demand without conditions to the trust department of a national bank, set aside in the trust department of that bank, is sufficient to comply with the above provisions of law, provided, that it is equal in market value at least to the amount of the funds deposited by the trust department with the commercial department of the bank.'

"The same principles would be applicable to a receipt issued by your correspondent bank in New York. The deposit of such a receipt with the trust department of your bank would be a satisfactory compliance with section 11(k) of the Federal Reserve Act. However, you should note that under the above ruling such a safekeeping receipt must be 'payable on demand without conditions to the trust department' of your bank. Accordingly, the receipt should be issued to and the bonds subject to withdrawal by duly authorized officers of the trust department of your bank in order to insure that an effective pledge has been made.

"We hope that this will satisfactorily answer your inquiry. Should you have any further questions, please feel free to write to the Board or the Federal Reserve Bank of Richmond."

Approved unanimously, with copies
to the Comptroller of the Currency and
the Federal Reserve Bank of Richmond.

Letter to the Honorable Brien McMahon, United States Senate, Washington, D. C., reading as follows:

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"This refers to your letter to Chairman Martin dated January 7, 1952, enclosing a letter to you from Mr. Cary Louis Wellington of the Sandringham Company, Inc., Stamford, Connecticut, urging an extension of the deadline in Section 5(g), Contemplated Construction, of the Board of Governors' Regulation X--Real Estate Credit. Senator Benton also referred to us an identical letter from Mr. Wellington.

"Mr. Wellington is correct in his statements to the effect that the regulation, issued under authority granted in the Defense Production Act of 1950, is designed to assist in restraining inflationary pressures. Moreover, the regulation also has the objective of conserving labor and materials for diversion to the defense effort.

"From the time of the issuance of the regulation on October 12, 1950, any builder or other person who had made substantial commitments or undertakings prior to August 3, 1950, with a view to constructing specified new residences had until March 15, 1951, to submit an application to a Federal Reserve Bank indicating all the facts and submitting all the necessary supporting documents showing why it would cause him substantial hardship if he were not able to obtain credit to finance these new construction units on terms contemplated by him and a Registrant (lender) before August 3, 1950. This Section was included in the regulation when it was first made effective as a means of preventing inequity and substantial hardship from being imposed by the regulation on persons who had completed sizable preliminary residential construction steps previous to August 3, 1950. After considering the application and supporting documents and determining whether substantial commitments had been made and substantial hardship would result, the Federal Reserve Bank was then able to either issue a certificate of exemption or deny the application. Throughout the entire United States there were only in the neighborhood of 37 such so-called 'hardship exemptions' granted with respect to residential property under the provisions of Section 5(g), and the Federal Reserve Bank of Boston has reported that only one exemption was granted in the entire New England area.

"On more than one occasion in the past the Board and the Federal Reserve Banks have considered the advisability of extending the termination date for filing an application under Section 5(g), and have concluded that such policy action was inadvisable in the interests of an effective regulation and as a matter of equity. And, as you can appreciate, the Board could not in fairness to all of the other builders

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"who are carrying forward operations under Regulation X make an exception from the provisions of the regulation for an individual developer.

"We hope this is the information which you desired concerning Mr. Wellington's letter. If we can furnish any additional material or assistance to you please let us know. Mr. Wellington's letter is returned herewith as you requested."

Approved unanimously, together
with a similar letter to the Honorable
William Benton, United States Senate,
Washington, D. C.

Memorandum dated January 24, 1952, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending for reasons stated therein that three persons from the Board's staff be assigned to attend the American Red Cross instructors' school, comprising 45 hours of training, from 9:00 a.m. to 12:00 noon three days a week, and that upon completion of the course, these persons instruct approximately twenty other employees of the Board in first aid, the latter course, consisting of 22 hours instruction, to be given during regular working hours.

Approved unanimously.

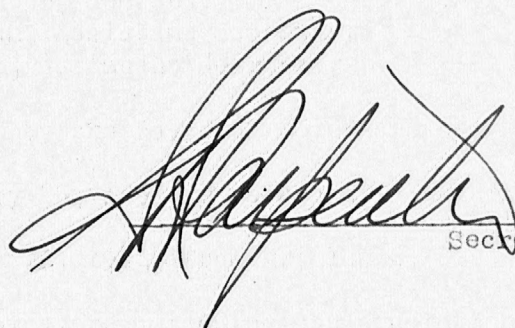
Memorandum dated January 23, 1952, from the Division of Examinations stating that, in accordance with authority granted by the Board on November 10, 1949, a dinner would be held on February 7, 1952 in connection with the Examiners' Conference, to be attended by a list of persons approved by the Personnel Committee; that payment of the cost involved

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was provided for by the Board's action of November 10, 1949; but that approval of the expenditure was requested as an item which had not been provided for in the Division's budget for 1952.

Approved unanimously.


Secretary.