

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 3, 1952. The Board met in executive session in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Powell
Mr. Mills
Mr. Robertson

Following the executive session, the Chairman informed the Secretary that the following actions had been taken:

There was a discussion of the invitation which Governor Powell had received to speak before the Municipal Finance Officers Association of the United States and Canada on June 18, 1952, in Boston, and it was agreed that he should decide whether the invitation should be accepted.

Secretary's note: Governor Powell's office subsequently advised that he had agreed to make the talk.

Reference was also made to a memorandum addressed to the Chairman under date of April 2, 1952, by Governor Powell in which he referred to the action taken by the Board on December 28, 1951, requesting that he and Messrs. Thurston and Young consider the preparation of an educational system booklet based on the material prepared for the Patman Subcommittee questionnaire. The memorandum stated that there had not been time to undertake the work and that in order to avoid further delays it

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was recommended that Mr. Goldenweiser, formerly Director of the Board's Division of Research and Statistics, be approached to see if he would undertake the design and editing of such a booklet.

The matter was discussed but it was agreed that action should be deferred for the time being.

Unanimous approval was also given to the payment of a voucher submitted by the Federal Reserve Bank of San Francisco, in the amount of \$1,330.77, covering Mr. Swan's service as Acting Assistant Director of the Division of Selective Credit Regulation for the month of February.

The following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 2, 1952, were approved unanimously.

Memorandum dated April 2, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that the temporary appointment of Henry Tidwell, Cafeteria Laborer in that Division, be extended on a temporary indefinite basis, effective April 4, 1952, with no change in his present basic salary at the rate of \$2,552 per annum.

Approved unanimously.

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

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"This refers to your letters of February 5 and 19, 1952, with respect to debentures of The Peoples State Bank of Baldwin, Baldwin, New York, held by the Reconstruction Finance Corporation which the directors of the bank are in the process of purchasing. You present the question whether these debentures may still be considered as part of the bank's capital in determining loan limitations and other limitations based upon capital requirements under the various sections of the Federal Reserve Act.

"It is provided in section 9 of the Federal Reserve Act that, for the purposes of membership in the Federal Reserve System, the terms 'capital' and 'capital stock' shall include the amount of the outstanding capital notes and debentures legally issued by the applying bank and purchased by the RFC. The Act of March 24, 1933, authorized the RFC to purchase the legally issued capital notes or debentures of State banks, under certain circumstances, and to sell in the open market the whole or any part of such capital notes or debentures. Reading these two sections together, it appears that the law requires the inclusion of debentures sold to the RFC as member bank capital, but at the same time makes provision for the sale by the RFC of such debentures to other interests. Although the statute does not of itself supply the answer to your question, it seems reasonable to assume that these debentures, which in some cases were necessary to qualify a bank for membership in the System, should not be disqualified upon their sale by the RFC. Accordingly, the Board is of the opinion that debentures legally issued and sold to the RFC by a member bank should continue to be treated as capital so long as they remain outstanding, and may be included in the member bank's capital in determining loan limitations and other limitations based upon capital requirements under various sections of the Federal Reserve Act.

"With respect to your question as to the effect of a substantial modification of the debentures, such as a revision in the maturity or a change in the interest rate, the answer must depend upon whether in each specific case the modification was provided for in the debentures as held by the RFC. The subsequent holders of these debentures would acquire rights and privileges of the original holder and it would seem only

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"equitable to permit such modifications as could have been made when the debentures were held by the RFC."

Approved unanimously.

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

"Reurlet about application of Dorsey, Houston, Texas for exemption under Section 5(m) of Regulation X. Letter of Certification by Defense Transport Administration signed by Acting Administrator is satisfactory."

Approved unanimously.

Letter to Mr. Gerard Halpern, P. O. Box 1390, Knoxville, Tennessee, reading as follows:

"In your letter of March 21, 1952, you inquired about the applicability of Subsection 5(o) of Regulation X to financing in connection with a proposed long-term lease of unimproved land in Oak Ridge, Tennessee, on which there is to be constructed a shopping center. You have asked for clarification of this subsection of the regulation and state in part as follows:

"From reading Subsection "O," it appears that the party (in this case, Oak Ridge Properties, Inc.) leasing land for non-residential construction would be exempt from Regulation X, provided that such leasing is not a subterfuge. Our position is that we are to lease land from the Atomic Energy Commission under a fifty-year lease. The payments under this lease will not be applied in any manner on any purchase price. It would appear, therefore, that our lease will be a bona fide lease on land to be used for non-residential construction by the lessee.

"We assume, therefore, that Subsection "O" and Footnote "18A" provide exemption to us (in this instance) from Regulation X."

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"Neither Subsection 5(o) nor the appended footnote 18a of Regulation X provides an exemption from the provisions and terms of the regulation in respect to extensions of credit for new nonresidential construction. Loans on leased nonresidential property on which there is new construction continue to be subject to the provisions and terms of Regulation X. In respect to the effect of footnote 18a on leasing transactions such as you describe in your letter, it would be necessary for registrants to take into consideration the amount of credit outstanding by reason of the lease in determining the amount of additional credit which may be extended to the lessee to finance the construction, if (1) the lessee has the option of becoming the owner of the land, or (2) has the right to have all or part of the payments required by the contract subsequently applied to a purchase of the land, or (3) obligates himself to pay a sum substantially equivalent to or in excess of the value of the land.

"Usually in the case of long-term leases, especially leases which run for as long as fifty years, the total rental payments payable over the entire term of the lease will equal or exceed the value of the land, and in such cases the amount of credit outstanding by reason of the lease shall be considered to be the appraised value of the land. For example in a hypothetical case where new nonresidential improvements on unencumbered land leased on one of the three bases mentioned above are valued at \$5,000,000 and the land is valued at \$500,000, the amount of credit outstanding may not exceed an aggregate of \$2,750,000. In such a case, the value of the land is considered credit already outstanding, and the lessee may borrow an additional \$2,250,000.

"We hope that this satisfactorily answers your inquiry."

Approved unanimously.


Secretary.