Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 11, 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. Robertson

Following the executive session the Chairman informed the Secretary that during the executive session the action indicated had been taken with respect to the following matters:

Letter for the signature of the Chairman to Mr. Hodgkinson, Chairman, Board of Directors, Federal Reserve Bank of Boston, reading as follows:

"The Board appreciates receiving the views of your directors with respect to the salaries for the President and the First Vice President of the Federal Reserve Bank of Boston.

"As stated in our letter of February 26, 1952, the salaries of the presidents and first vice presidents of the Federal Reserve Banks will be considered by the Board at a later date and if any change is made in existing policy the Boards of Directors of the Reserve Banks will be advised promptly."

Approved unanimously.

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

"The Board of Governors approves for the period April 7, 1952, through March 31, 1953, the payment of

"salary to Mr. Donald C. Niles as a Manager, assigned to the Planning Department, at the rate of $9,000 per annum which is the rate fixed by the board of directors as reported in your letter of April 4, 1952."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Brent Spence, Chairman, Committee on Banking and Currency, House of Representatives, Washington, D. C., reading as follows:

"This is in response to Mr. Hallahan's letters of February 8 and February 11, 1952, requesting the Board's views with respect to the bill H. R. 6504, introduced by you on February 7, 1952, to provide for the control and regulation of bank holding companies.

"Briefly stated, and without reference to details, this bill would define a 'bank holding company' as any company which owns 15 per cent or more of the voting shares of two or more banks or which is determined by the Board of Governors to exercise a controlling influence over two or more banks; require registration of such companies and provide for reports and examinations; require the Board's consent, or, in certain cases, the consent of the Comptroller of the Currency or the Federal Deposit Insurance Corporation, for the acquisition of bank shares and assets by a holding company or for the acquisition of bank assets by its subsidiary banks; require such companies to divest themselves of nonbanking interests with certain exceptions; prohibit borrowings by such companies from their subsidiary banks; and contain provisions for investigations, injunctions, judicial review, criminal penalties, and necessary technical amendments to existing law.

"As you know, over a long period of years Congress has from time to time considered bills of various types relating to the regulation of bank holding companies, some of which have been recommended or endorsed by the Board of Governors of the Federal Reserve System. The Board has taken the occasion of your Committee's request for a report on the present bill to make a careful re-examination of this subject in order to determine the basic nature of the actual or potential problems relating to bank holding companies, the principles which should govern legislation

"designed to meet these problems, and the extent to which existing law is inadequate for this purpose.

"The conclusions reached by the Board as the result of its review of this matter, in the light of the desirability of keeping new legislation on this subject to a minimum, are set forth in the enclosed memorandum entitled 'Extent of Need for Legislation for the Regulation of Bank Holding Companies.' Also enclosed is a table showing information regarding 28 groups of banks in the United States which are generally considered as being bank holding company groups.

"As indicated in the enclosed memorandum, the Board believes that the principal problems in the bank holding company field arise from two circumstances: (1) the unrestricted ability of a bank holding company group to add to the number of its banking units, thus making possible the concentration of a large portion of the commercial banking facilities in a particular area under single control and management; and (2) the combination under single control of both banks and nonbanking enterprises, thus permitting departure from the principle that banking institutions should not engage in businesses wholly unrelated to banking because of the incompatibility between the business of banking which involves the lending of other people's money and other types of business enterprises.

"In order to meet these basic problems, the Board feels that there are certain general principles which should be applied in considering any legislation on this subject. These principles, which are more completely stated in the enclosed memorandum, are briefly as follows:

1. The definition of 'bank holding company' should cover such companies as need to be covered in order to accomplish the desired objectives, including companies which control nonmember as well as member banks.

2. There should be authority for regulation and restriction of acquisitions of bank stocks by bank holding companies leading to control or domination of additional banks, leaving to the respective States authority further to restrict expansion of bank holding companies within their borders.

"3. Bank holding companies should be required to divest themselves of their interests in nonbanking enterprises, with certain appropriate exceptions.

4. Supervision of bank holding companies should be provided by requirement for their registration and by authority in the administering agency to obtain necessary information through reports and examinations.

5. The only essential enforcement measure is provision for criminal penalties.

6. Administration of such legislation should be vested in a single agency of the Federal Government to be determined by Congress.

"In the light of these general principles, it is the Board's view that existing provisions of law on this subject originally enacted in the Banking Act of 1933 are inadequate in two major respects. They do not contain adequate provisions for the purpose of regulating and restricting the acquisition of additional bank offices by bank holding companies; and they do not provide for the divestment of nonbanking interests by such companies. In connection with any legislation designed to correct these inadequacies, it would be sufficient to provide a definition of 'bank holding company' similar to the definition of 'holding company affiliate' contained in present law, which is based primarily on majority ownership of stock, except that (1) the definition should not be limited to companies controlling only member banks, as is the present definition, but should cover companies owning nonmember as well as member banks, and (2) a company falling within the definition should continue to be regarded as a bank holding company as long as it continues to own any bank stocks.

"It is the considered opinion of the Board that the major problems in the bank holding company field would be satisfactorily met by legislation limited to provisions necessary to correct the deficiencies of present law which have just been mentioned and to carry out the principles outlined above. It is believed that legislation of this kind would not necessitate a revision of existing law on this subject, which relates principally to requirements aimed at maintaining the soundness of member banks in holding company groups.

"The Board wishes to emphasize that it makes no recommendation as to what agency should administer legislation of the kind here proposed. It feels that the selection of an appropriate agency for this purpose is a matter which should be left to the judgment of Congress.

"It will be appreciated if you and your Committee will give consideration to the statement of the Board's views as above outlined and as more fully stated in the enclosed memorandum. The Board will, of course, be glad to render all assistance possible in an effort to work out specific proposals for legislation of this kind.

"As you will observe, the approach to bank holding company legislation here suggested does not accord in certain respects with the approach represented by the bill H. R. 6504, or with the approach heretofore taken by the Board with respect to previously considered bills on this subject. As the result of its re-examination of this matter, the Board believes that it would be preferable to limit legislation to the accomplishment of the objectives and principles above outlined. Nevertheless, if your Committee should wish to proceed on the basis of the approach of H. R. 6504, the Board would like to mention for your consideration certain respects in which it believes that this bill should be changed or modified.

"The definition of 'bank holding company' in section 3 of the bill is much broader than would seem to be necessary to accomplish the purposes of the legislation. It would cover an unknown number of companies which would not need to be subjected to regulation. As heretofore indicated, it is believed that a definition similar to that contained in present law, if expanded to cover nonmember as well as member banks, would be adequate, as a minimum, to achieve the objectives of legislation on this subject. On the basis of presently available facts, such a definition would include all companies which are normally considered to be bank holding companies.

"Section 3 of the bill excludes from the definition of the term 'bank holding company' certain organizations of a religious, charitable, scientific, literary, or educational nature. We doubt the desirability of such specific exclusions. Instead, we suggest that the administering agency should be vested with a limited authority to exclude from the definition companies which need not be covered in order to accomplish the

"basic purposes of the legislation and that appropriate standards for making such exclusions should be prescribed in the law.

"Section 5(d) in effect would prohibit any bank holding company or any of its subsidiaries from acquiring bank shares or bank assets beyond State lines or in any State in which the operation of branches by banks is not authorized by State law. The Board feels that bank holding company legislation should not be made to depend upon laws of the various States enacted with a different type of banking in mind. The States should be free to deal with bank holding company operations on a different basis from branch banking operations if they see fit to do so. In our opinion, the administering agency should be authorized to permit or deny the expansion of bank holding companies in accordance with standards provided in the law; and, in addition, the legislation should specifically reserve to the States the right to impose further restrictions upon the expansion of bank holding companies within their borders. In any event, if the prohibition is retained, it is believed that some exception should be made in order to permit emergency take-overs of banks where necessary in the public interest. In addition, the provisions of the bill on this subject would need clarification with respect to those States in which the prohibition is applicable.

"In order to guide the administering agency in giving its consent to acquisitions of bank shares and assets by bank holding companies under section 5 of the bill, it would be desirable to require that the agency consider certain standards or factors, such as the financial history and condition of the applicant and the banks concerned, the character of their management, the needs of the community, and whether such acquisitions would expand the size of the holding company group in a manner inconsistent with sound banking or with the maintenance of local ownership and control of banks and of competition in the banking field.

"Section 6 of the bill, requiring divestment of interests in nonbanking organizations, contains an exception as to ownership of shares or obligations of investment companies. Although the administering agency would be given authority to require divestment in such cases in order to present evasions, it is believed that this authorization for unlimited ownership

"of shares or obligations of investment companies should at least be restricted.

"To the extent that section 7 of the bill would completely prohibit any loans by a subsidiary bank to its bank holding company, the bill would seem to be unnecessarily restrictive. If any provisions on this subject are deemed necessary, it would be preferable to include provisions, similar to those contained in existing law (section 23A of the Federal Reserve Act), which impose certain limitations as to amount and collateral security upon loans which may be made by member banks to holding company affiliates or other affiliates of such banks.

"There are a number of other detailed respects in which it is believed it would be desirable for the bill to be changed or modified but which it does not seem necessary to cover specifically in this letter. However, if you should so desire, the Board will be glad to submit a memorandum with respect to details of this kind or to have its staff work with the staff of your Committee in this connection.

"The Board believes that enactment of legislation for the more effective regulation of bank holding companies is important and it appreciates this opportunity to express its views regarding this matter."

Approved unanimously, a copy being sent to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., and to the Presidents of all Federal Reserve Banks.

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 10, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the

establishment without change by the Federal Reserve Bank of St. Louis on April 7 and 10, by the Federal Reserve Bank of San Francisco on April 8, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on April 10, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective April 13, 1952:

Date of Memorandum	Name and Title	Salary Increase From	To
	Memorandum from the Secretary of the Board		
4/10/52	Aline L. Yates, Index Clerk	$4,035	$4,160
	Memorandum from Mr. Vest, General Counsel, Legal Division		
4/10/52	Erma Lee Hufford, Stenographer	3,335	3,415
	Memorandum from Mr. Young, Director, Division of Research and Statistics		
4/3/52	Helene F. Baur, Clerk	4,285	4,410
	Memorandum from Mr. Bethea, Director, Division of Administrative Services		
4/3/52	Mary C. Redmond, Clerk	3,415	3,495
	Carl E. Beuchert, Clerk	3,175	3,255

Date of Memorandum	Name and Title	Salary Increase From	To
	Memorandum from Mr. Bethea, Director, Division of Administrative Services		
4/3/52	Robert H. Craft, Guard	$2,910	$2,990
4/11/52	Thomas V. Kopfman, Clerk (Duplicating and Mail Section)	3,190	3,270

Approved unanimously.

Memorandum dated April 9, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that Thelma M. Long, Elevator Operator in that Division, be granted leave of absence without pay for the period April 11 through August 10, 1952.

Approved unanimously.

Letter to Mr. Clarke, Secretary, Federal Reserve Bank of New York, reading as follows:

> "Reference is made to your letter of April 3, 1952, advising that at the request of the United Nations Relief and Rehabilitation Administration the leave of absence without pay granted to Mr. John S. Morgan, Economist, Foreign Research Division, Research Department, was extended until the end of September 1952 in order to permit him to complete the assignment for which he went to Lebanon.
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> "The Board of Governors interposes no objection to this extension of leave granted Mr. Morgan."

Approved unanimously.

Letter to Mr. T. L. Tolan, Jr., Wood, Warner, Tyrrell & Bruce, Security Building, Milwaukee, Wisconsin, reading as follows:

"This refers to your letter of April 3, 1952, concerning the Board's Regulation T which relates to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges.

"You inquire as to interpretations the Board has issued explaining what transactions, particularly in unissued securities, may be included in a special cash account under section 4(c) of the regulation. The requirements have been discussed to some extent in an interpretation, of which we are enclosing a copy, published in the November 1940 Federal Reserve Bulletin at page 1172. You will note that section 4(c)(1) states the general principles, and that the application of these general principles would depend upon the facts of any particular case.

"You also inquire as to section 6(d) of Regulation T relating to the transfer of accounts. The regulation does not require a broker to reduce the amount of credit in a general account when the market value of the securities in the account declines. Accordingly, it is entirely possible for an account at a given time to have more credit outstanding than the broker would be permitted to extend on the securities in the account in a new transaction. Recognizing this fact, section 6(d) says, in effect, that when the conditions specified in the section are met, a broker may take over such an undermargined account from another broker even though he could not establish the account on that basis as an original transaction. It was not the purpose of the section to impose any liability on the transferree for any acts of the transferor which may have violated Regulation T, but merely to avoid requiring liquidation in an account that happens to be transferred from one broker to another."

Approved unanimously, with a copy to Mr. Young, President, Federal Reserve Bank of Chicago.

Letter to Mr. Arthur T. Esgate, Production Credit Commissioner, Farm Credit Administration, Department of Agriculture, Washington, D. C., reading as follows:

"Reference is made to the telephone conversations between Mr. Rooney, Associate Solicitor in the Farm Credit

"Administration, and Mr. Fuhrer in the Board's Division of Selective Credit Regulation, and to your Administration's bulletin of November 9, 1950, to all the district units, including the Regional Banks for Cooperatives, directing them to conform to Regulation X in making extensions of residential real estate credit. We have not been able to locate the copy of your Administration's subsequent memorandum of March 20, 1951, to the various field units among which were the two types of mixed-ownership Government corporations, Federal Land Banks and Production Credit Associations, directing them to comply with the nonresidential amendments to Regulation X which Mr. Rooney felt had been sent to us. We would appreciate having a copy of this memorandum for our records.

"In this connection the Board would appreciate it if the Farm Credit Administration would consider the advisability of making its March 20, 1951, instructions pertaining to loans with respect to nonresidential structures apply also to the Bank for Cooperatives, another mixed-ownership Government Corporation."

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel, Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of March 28, 1952, with enclosure, to Mr. Benner regarding the applicability of Regulation X to a loan to be secured by residential property and a new nonresidential building to be used as a cabinet-making shop.

"From the facts given in your letter and in the enclosure from the Registrant, we view this proposed extension of credit as a mixed-purpose loan and only that portion which is for the purpose of financing the nonresidential structure would be subject to Regulation X. Those parts of the extension of credit to be used to buy equipment ($2,000), to purchase stock ($1,000), and any remaining sum for working capital are not subject to the regulation, since the residential property to be put up as partial security for the loan is not new construction.

"In determining the maximum loan value of the nonresidential shop structure under Regulation X, an appraisal of the

"portion of the land on which the new nonresidential building is to be erected including a reasonable area to make the structure fully utilizable, should be included in the value. On the basis of such an appraisal, if the value of the building was $6,000 and the land upon which it would be situated $1,500, the maximum loan value of this section of the property would be $3,750. Additionally, this part of the credit would have to comply with the regulation's nonresidential maturity and amortization provisions. Compliance of this part of the loan with Regulation X will not cause the total loan which The First National Bank of Athol can advance to be too far below the amount it could otherwise legally lend as a National Bank in this instance."

Approved unanimously.

Letter to Mr. Lewis, Vice President, Federal Reserve Bank of St. Louis, in regard to Robert L. McManemy, doing business as Standard Auto Sales, 4212 State Street, East St. Louis, Illinois, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of April 7, 1952, regarding the above matter, in which you state that in view of the fact that Mr. McManemy has now reduced his inventory to two pre-war cars, thus indicating that he is carrying out his intention of not entering business for himself, your Bank is of the opinion that the injunction proceeding previously recommended would not be appropriate and that the matter should be disposed of by compliance conference, with the understanding that Mr. McManemy will be kept under scrutiny.

"In view of the new developments described in your letter, the Board concurs in your recommendation."

Approved unanimously.

Secretary.