

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 16, 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. Powell
Mr. Mills
Mr. Robertson

The Chairman later informed the Secretary that during the executive session the following actions were taken:

Unanimous approval was given to the recommendation contained in a memorandum dated May 13, 1952, from Mr. Carpenter, Secretary of the Board, that Mrs. Marion H. Derr, Records Clerk, Files Section, Office of the Secretary, be granted leave without pay from the expiration of her accumulated sick and annual leave on May 20, 1952, until September 1, 1952.

Unanimous approval was given to the recommendation contained in a memorandum dated May 12, 1952, from Mr. Bethea, Director, Division of Administrative Services, that Mrs. Libbie L. Boyd, Charwoman in that Division, be granted leave without pay for the period May 22 through August 21, 1952.

Unanimous approval was given to the recommendation contained in a memorandum dated May 9, 1952, from Mr. Marget, Director, Division of International Finance, that Edward Ames, Economist in that Division, be granted official leave in order to accept an invitation to make an informal talk on August 19, 1952, on "The Basic Differences between Economic

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"Systems" at the Workshop on Economic Education, being held at the University of Connecticut under the sponsorship of the Committee for Economic Development. The memorandum stated that travel and other expenses incident to Mr. Ames' trip would be paid by the sponsors of the Workshop.

The following letter to Mr. Gidney, President, Federal Reserve Bank of Cleveland, was approved unanimously:

"This refers to your letter of March 14, 1952, concerning the resolution adopted by the directors of the Cincinnati Branch on February 11, 1952.

"The resolution urges that the Board of Governors permit each Reserve Bank to set up a reserve account out of earnings each year to cover its proportion of any depreciation in the Open Market Account at the end of the year. It is noted that your directors found themselves in agreement with the view of the Cincinnati Branch directors and requested that you transmit a copy of the resolution and a letter stating that they continue to be of the opinion that further additions to surplus or to reserves for contingencies should be made out of the very substantial earnings which are now accruing to the Reserve Banks.

"As you know, this subject was discussed at the joint meeting of the Board and the Presidents on May 18, 1951, at which time it was stated that the Board questioned whether any action should be taken to reopen the existing arrangement with the Treasury. In the Board's letter of June 13, 1951, it was stated that the Board also felt, in view of the substantial net earnings of the Reserve Banks available for losses, that there was no present need for increasing reserves for contingencies.

"The Board has again considered the matter, in the light of the suggestion of the Cincinnati Branch directors, but feels that there has been no change in the situation which would warrant taking a different position at this time. However, the Board will keep the matter under consideration.

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"In this connection it was noted that the depreciation in the System Account, as shown in the Open Market Report, was \$78,400,000 on April 16, 1952, as compared with a total of \$148,641,000 as shown in the Open Market report of March 12, 1952, which was referred to in your letter. It was also noted that net profits of \$1,479,000 on sales of Government securities have been realized this year through April 16, compared with the \$1,586,000 net losses sustained in 1951, which was the first year since 1929 showing a loss on sales of Government securities."

The meeting then recessed and reconvened at 2:40 p.m. with the following members of the Board and the staff in attendance:

Mr. Szymczak, Chairman pro tem.
 Mr. Evans
 Mr. Powell
 Mr. Mills
 Mr. Robertson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Townsend, Solicitor
 Mr. Noyes, Director, Division of Selective
 Credit Regulation
 Mr. Garfield, Adviser on Economic Research,
 Division of Research and Statistics
 Mr. Benner, Assistant Director, Division of
 Selective Credit Regulation
 Mr. Fauver, Assistant to Mr. Thurston
 Mr. Wood, Economist, Division of Research
 and Statistics

Mr. Townsend stated that a formal request had been received from the attorney for Atlas Furniture Company, Detroit, Michigan, against which an injunctive decree was obtained in May, 1951, against continuing

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violations of Regulation W, Consumer Credit, in which it was requested that the Board join with respondent in asking the court for an order terminating the injunction. Mr. Townsend stated that inasmuch as Regulation W had been suspended and there was a question whether the injunction would have any legal effect if the regulation should be reinstated, he could see no objection to joining in a request that the injunction be terminated in the case of Atlas Furniture Company or in any similar case when a respondent asked that the Board do so. He added that he would not recommend that the Board initiate proceedings to terminate injunctions in all Regulation W cases in which such injunctions had been issued.

Governor Powell stated that he would be opposed to consenting to termination of the injunction in the case of Atlas Furniture Company unless the Board took steps to inform all registrants against which injunctions had been issued that it would join with them if they so desired in requesting termination orders from the courts.

Governor Robertson questioned whether it would be desirable for the Board to initiate action terminating injunctions in the case of concerns which clearly had violated the regulation, even though the injunctions at present were of no effect since the regulation had been suspended.

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Governor Evans stated that he did not consider the matter to be of much importance, that he would be willing to notify all concerns which had been enjoined from continuing to violate Regulation W that the Board would join in requesting termination of the injunction if they desired, or that he would be willing to advise attorneys for Atlas Furniture Company that the Board would neither oppose nor support their request for a termination order, thus leaving it for Atlas Furniture Company to proceed alone in its efforts to have the injunction terminated.

Thereupon, upon motion by Governor Robertson, it was agreed unanimously that (1) attorneys for Atlas Furniture Company should be advised that the Board would take no action either to support or to oppose the request for termination of the injunction against continuing violations of Regulation W, and (2) if other requests for such action were received they should be handled in the same manner. In taking this action it was understood that advice of the Board's position would be sent to all Federal Reserve Banks.

Secretary's Note: In accordance with the foregoing action, the following letter was sent to the Presidents of all Federal Reserve Banks under date of May 21, 1952:

"A letter was recently received by the Board from one of the Reserve Banks asking whether the Board would consent to a formal order of termination of an injunction previously obtained against a registrant under Regulation W, on the ground that the Regulation was no longer in effect.

"The Board agreed that since Regulation W had been suspended, there was no good reason for opposing the entry

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"of such a termination order. On the other hand, it felt that it might not be desirable to have the record show that the Board had taken affirmative action to terminate such an order against continuing violations of Regulation W, particularly if the Regulation were to be reinstated. The Board determined, therefore, that in the case presented and in any such situation arising in the future, the Board would neither consent to nor oppose the entry of such a termination order. If, therefore, counsel for any registrant under Regulation W, against whom an injunction has previously been obtained, should make inquiry on this subject, this letter will be your authorization to inform such counsel of the Board's decision above set forth."

Mr. Townsend then referred to the suit filed by the Board against T and E Company, Inc., Wilkes-Barre, Pennsylvania, pursuant to the action of the Board on March 4, 1952, in connection with that company's failure to comply with Regulation W, and to the fact that T and E Company had also filed a suit against the Board asking for a declaratory judgment that its business was not subject to Regulation W and for certain other relief.

Mr. Townsend said that in view of the suspension of Regulation W, the Board should now take steps to have its suit terminated since there would be no basis for pursuing the matter further. He also suggested that, in acting to withdraw the Board's suit, T and E Company also be requested to have the suit it had filed against the Board withdrawn at the same time.

Mr. Townsend's suggestions were approved unanimously.

Mr. Evans then called upon Mr. Noyes for a review of developments in connection with a possible relaxation of Regulation X, Real Estate

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Credit, since the meeting on May 13.

Mr. Noyes stated that yesterday afternoon members of the staff met with representatives of the National Association of Home Builders who presented a request that Regulation X be terminated. The representatives of the Association, Mr. Noyes said, presented little or no information or evidence in support of their request in terms of hardship being caused builders, while information received from the Federal Reserve Banks as well as information prepared by the Board's staff failed to indicate any strong reason why Regulation X should be relaxed in terms of hardship it was causing under present economic conditions. Mr. Noyes went on to say that this morning members of the staff met with Messrs. William A. Clark and Ernest M. Fisher, consultants in connection with the real estate credit regulation, and it was the consensus that although no economic necessity for relaxation was apparent, there was no economic reason why the regulation should not be relaxed from its present terms along the lines of the proposal submitted for the Board's consideration in the meeting on May 13.

Mr. Noyes added that since the meeting this morning he had talked with Mr. Hardy, Assistant Administrator of the Housing and Home Finance Agency, who stated it to be the view of Mr. Foley, Housing and Home Finance Administrator, that consideration should be given to eliminating any requirements under Regulation X as to credit for houses selling below

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\$7,000. This tentative suggestion was based on the view that very little housing in that price bracket was likely to be undertaken except with Federal Housing Administration insurance or Veterans Administration guarantee, and in the case of the latter Mr. Foley felt he would be able to retain some restrictive requirements so as to avoid 100 per cent guarantees by the Veterans Administration. Mr. Noyes emphasized that this was not a definite recommendation of Mr. Foley but was presented by Mr. Hardy as his tentative thinking at this time.

Messrs. Garfield, Wood, and Riefler then commented on the economic situation with particular reference to building, and there followed a general discussion during which Governor Powell reiterated the views he had expressed at the meeting May 13. He stated he did not feel it practicable to maintain a requirement for a 50 per cent down payment on houses and nonresidential structures except in most extreme emergency conditions and that he would go along with Mr. Foley's suggestion for removing the regulation entirely for houses selling below \$7,000 since little credit would be involved.

Governor Robertson expressed the view that no relaxation should be made unless economic conditions justified it, that he felt some easing of terms for property selling below \$7,000 would be desirable if there were to be relaxation for those selling above \$12,000, and that he would strongly prefer that the 50 per cent down payment requirement be retained

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for houses falling in the "luxury" bracket, perhaps those selling above \$40,000.

At the conclusion of the discussion it was understood that further consideration would be given to a possible relaxation of the terms of the regulation following the meeting of the Board with the Federal Advisory Council on Tuesday, May 20, and that in the meantime Mr. Noyes would continue informal discussions of the matter with Mr. Foley's office.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman 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 May 15, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston, St. Louis, and Kansas City on May 12, by the Federal Reserve Bank of San Francisco on May 13, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on May 15, 1952, of the rates of discount and purchase in their

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existing schedules.

Approved unanimously.

Letter to the board of directors of the Metairie Savings Bank & Trust Company, Metairie, Louisiana, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta. The letter also contained the following special comment:

"It appears that the bank is authorized to exercise trust powers but that such powers are not being exercised at this time. Attention is invited to the fact that if the bank should desire to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the bank since the time of its application for membership."

Approved unanimously, together
with the following letter to Mr. Bryan,
President, Federal Reserve Bank of Atlanta:

"The Board of Governors of the Federal Reserve System approves the application of the Metairie Savings Bank & Trust Company, Metairie, Louisiana, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files

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"and the other of which you are requested to forward to the State Bank Commissioner for the State of Louisiana, for his information.

"The report of examination for membership indicates that the principal criticism of the applicant bank was its lack of aggressive collection policies, particularly in the personal loan department. In his memorandum accompanying the application Vice President Denmark stated that while the bank appeared to have no serious problems, a strengthening of its management is needed to bring about improvement in its asset condition. It is assumed, of course, that the Reserve Bank will follow this situation closely and will assist the bank in every possible way in effecting the necessary corrective action."

Letter to The National City Bank of New York, New York, New York, reading as follows:

"The Board of Governors of the Federal Reserve System authorizes The National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Cali, Colombia, and to operate and maintain such branch subject to the provisions of such section; upon condition that unless the branch is actually established and opened for business on or before June 1, 1953, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date."

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

Letter to Mr. Slade, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of April 28, 1952, regarding request of Security Trust & Savings Bank of San

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"Diego, San Diego, California, for permission to establish a branch at Imperial Beach, California.

"It is noted that the establishment of the proposed branch has been approved by the State authorities, and in view of your recommendation, the Board of Governors approves the establishment and operation of a branch at Imperial Beach, California, by Security Trust & Savings Bank of San Diego, provided such branch is established within six months from April 10, 1952.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter for the signature of the Chairman, to Mr. Brainard, Chairman, Federal Reserve Bank of Cleveland, reading as follows:

"The members of the Board appreciate very greatly the fine spirit which prompted your letter of May 8 in which you express the wish not to stand for reappointment as a Class C Director of the Federal Reserve Bank of Cleveland for another term.

"You have been associated with the System in the most important and interesting period of its existence-- a time when it was faced with a number of new and important problems. You, with other Chairmen, have made a real contribution to the consideration of these problems and to the public understanding of the important place which the Federal Reserve System occupies. Not only the Federal Reserve Bank of Cleveland, but the other Reserve Banks and the Board of Governors as well, will continue to be indebted to you for that service. No one can do the kind of work you have done as Chairman of the Cleveland Bank without winning the genuine respect and esteem of his associates and certainly you have done just that.

"The Board is pleased to have your comments with respect to Mr. Virden for consideration when it takes up later in the year the selection of someone to succeed you as Chairman of the Cleveland Bank."

Approved unanimously.

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Letter to the Board of Directors, Elston Bank & Trust Company, Crawfordsville, Indiana, reading as follows:

"In a letter dated April 29, 1952, Vice President Diercks of the Federal Reserve Bank of Chicago transmitted the formal request of the Elston Bank & Trust Company for permission to purchase certain assets and assume the deposit liabilities of The Citizens National Bank of Crawfordsville, Indiana, under a plan which provides for an increase of \$100,000 in the capital funds of the assuming bank. Additional information and statistical data, which was not presented at the time the Board informally considered the proposed transaction, accompanied the application.

"The Board of Governors hereby gives its written consent pursuant to Section 18(c) of the Federal Deposit Insurance Act for the Elston Bank & Trust Company to purchase certain assets and assume the deposit liabilities of The Citizens National Bank of Crawfordsville, provided the capital funds of the former institution are increased \$100,000 by the sale of new common stock at the time of the absorption. It is understood that the transaction has the approval of the Members of the Department of Financial Institutions of the State of Indiana."

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

Letter to Mr. Ueland, Vice President and Counsel, Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of May 9, 1952, with its enclosures, regarding the question whether a deposit represented by a passbook used by the First National Bank of Wilmont, Minnesota, would constitute a savings deposit within the meaning of Regulation Q in view of the following provision contained in the passbook:

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"Withdrawals will, as a rule, be paid on demand; but the Bank reserves the right to require 60 days' notice, in writing, of intention to withdraw a deposit, should it ever appear expedient to do so."

"This matter has been given consideration and we interpret the above-quoted provision of the passbook as reserving to the member bank the legal right to require 60 days' notice in writing of any intended withdrawal by the depositor. In the circumstances, it is the Board's opinion that a deposit represented by a passbook containing such a provision may properly be considered as conforming to the requirement of the definition of 'savings deposit' set forth in Regulation Q that the depositor may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made."

Approved unanimously.

Letters to Mr. Debus, Cashier, Federal Reserve Bank of Kansas City, stating that the Board concurs in the recommendations of that Bank that no further action be taken concerning reported violations of Regulation W, Consumer Credit, by the following registrants:

- George B, Peck, Incorporated,
Kansas City, Missouri
- Gorman's Incorporated,
Kansas City, Missouri
- Star Appliance Company, Inc.,
Kansas City, Missouri

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, in regard to Payton-Nash Company, North Kansas City, Missouri, a registrant under Regulation W, Consumer Credit, reading as follows:

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"You will remember that after this case was originally referred to the Board, your Bank made customer contacts, and that when this was done it became apparent that there was not sufficient evidence to support a referral to the Department of Justice. Consequently, the possibility of a consent suspension of the registrant's license was discussed, and you later advised us that the registrant would consent to a suspension for a period of 25 days. This method of handling the case was approved and the orders were being prepared when Regulation W was suspended.

"In view of the fact that a license cannot now be suspended, the Board is closing its file."

Approved unanimously.

Letter to Mr. Fletcher, First Vice President, Federal Reserve Bank of Cleveland, in regard to Turner Automobile Company, Uniontown, Pennsylvania, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of April 23, 1952 regarding the above matter which contains the recommendation of your Bank that the license of the registrant be suspended on a consent basis, and that proceedings be instituted to enjoin violations.

"As you know, the suspension of Regulation W has rendered both of these courses unavailable. Moreover, since no customer contacts have been made, and since none may be made in view of the Board's telegram of May 8, 1952, the case cannot be referred to the Department of Justice.

"Accordingly, the Board is closing its file."

Approved unanimously, together with a similar letter to Mr. Fletcher, regarding Herbert Feldman and Martin Feldman, doing business as Citizens Television and Appliances,

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Pittsburgh, Pennsylvania, also a registrant under Regulation W.

Letter to Mr. Fletcher, Vice President, Federal Reserve Bank of Cleveland, in regard to City Home Service, Cleveland, Ohio, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of April 29, 1952 suggesting that an order for investigation be issued in the above case in order that additional evidence may be obtained.

"In view of the Board's telegram of May 8, 1952 stating that the Board had decided that all investigations under Regulation W be terminated, because of the suspension of Regulation W, the suggested order for investigation will not be issued in this case.

"It is noted that some customers have already been interviewed, and it is assumed that the case will be handled as indicated in the remainder of the Board's telegram of May 8."

Approved unanimously.

Memorandum dated May 14, 1952, from Mr. Noyes, Director, Division of Selective Credit Regulation, reading as follows:

"Inquiries have been received from a few Reserve Banks regarding the disposition of their Regulation W personnel. The Banks plan to transfer some members of their Regulation W staffs to other duties, either to those in which they were engaged before their work on the regulation or, in the case of new employees, to those relating to their training for regular Bank operations. This group could, of course, be made available were Regulation W to be reinstated. However, there are a number of other persons on the Banks' Regulation W staffs, (largely investigators who were hired as temporary employees) whom the Banks expect to release quite promptly, since it is not

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"felt that they are suitable for other duties because of age, salary levels, nature of their previous experience, and the like. It is requested that the Board authorize the staff to indicate informally in response to inquiries that there is no reason why the Banks should not follow that course."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Preston Delano, Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

"In accordance with the informal arrangement existing between your organization and ours with respect to the interchange of information relative to applications to establish branches, representatives of your office have notified us of the pendency of applications by the Bank of America N. T. & S. A. to establish branches in the South Shore District, Lake Tahoe Recreational Area, vicinity of Tahoe El Dorado County, California, and in the North Shore District, Lake Tahoe Recreational Area, vicinity of Tahoe City, Placer County, California. It was indicated that such branches were to be operated during the period June first to October first each year.

"Neither this Board nor the Federal Reserve Bank of San Francisco is in possession of any facts, which would indicate that the establishment of the branches in question would have any adverse effect upon other banking units which may be servicing this territory. While the proposed branches ordinarily would appear to be seasonal agencies and the applicant would not qualify as an operator of such agencies in this territory these are matters which we know you will consider in formulating your decision on the applications.

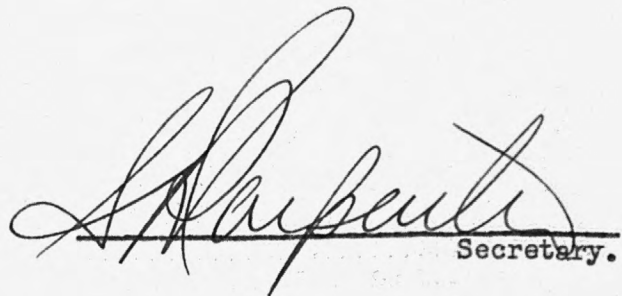
"As you know, matters of this kind are ordinarily handled by telephone, but in this case we are responding by letter because the bank involved is related to Transamerica Corporation, which, as you know, has been made the subject of the Board's Order in proceedings instituted under the

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"Clayton Act. We appreciate that the authority and responsibility for making a decision on branch applications of national banks rests with your office; and this letter should not be regarded as indicating in any way the views or opinion of the Board of Governors as to the action which should be taken by you with respect to these applications."

Approved unanimously.



Secretary.