

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 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. Powell

Following the executive session, Messrs. Carpenter, Secretary, and Vest, General Counsel, were called into the meeting.

The Chairman informed the Secretary that during the executive session the Board approved for publication in the Annual Report for the year 1951, in the form attached to the Secretary's memorandum to the individual members of the Board under date of May 27, 1952, the record required by the last paragraph of Section 10 of the Federal Reserve Act to be prepared by the Board covering actions taken by the Federal Open Market Committee on questions of policy during that year.

Prior to the meeting there had been distributed to the members of the Board copies of a memorandum dated June 9, 1952, from Mr. Vest, with respect to a telephone inquiry which Chairman Martin received from Mr. Murphy, Economist on the staff of the Patman Subcommittee of the Joint Committee on the Economic Report, regarding a suggestion by Congressman Patman that the law be amended so that the Federal Reserve would be given the supervision of Federal credit unions. The memorandum stated that apparently the reason for the suggestion was that the Federal credit unions now pay fees for their examinations and if supervision were placed

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in the Federal Reserve System, the examinations might be made by the Federal Reserve without cost. The memorandum set forth in detail the conversations with Mr. Murphy on the subject, some facts regarding Federal credit unions, and comments on the law and regulations with respect to Federal credit unions.

At Chairman Martin's request, Mr. Vest stated that he had discussed the matter with Mr. Shearer, Assistant to the Chief of the Examinations Division of the Federal Deposit Insurance Corporation, which organization was charged with the responsibility of supervising Federal credit unions from April 1942 until June 1948, and that Mr. Shearer stated that the experience of the Corporation had not been very satisfactory, and that it was his opinion that the supervision of Federal credit unions was not a proper activity to be lodged in a Federal bank supervisory agency.

Mr. Vest said that he had also discussed the matter with Governor Robertson, who expressed the view that if Congress felt that examinations of Federal credit unions should be made without cost, they should cover the expense by appropriations made for the purpose and not provide a hidden subsidy through the medium of free examinations.

At the conclusion of a brief discussion, it was understood that the Chairman would call Mr. Murphy this afternoon and inform him that it was the view of the Board that it should not be given the responsibility of supervising or examining

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Federal credit unions and that it was hoped that the question would not be raised so that the Board would not be put in the position of having to present reasons why the suggestion should not be adopted.

At this point Messrs. Kenyon, Assistant Secretary; Thurston, Assistant to the Board; Young, Director, Division of Research and Statistics; Sloan, Director, Division of Examinations; Solomon, Assistant General Counsel; Williams, Assistant Director, Division of Research and Statistics; and Schmidt, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics, joined the meeting.

Before this meeting there had been sent to each member of the Board a copy of a memorandum dated June 5, 1952, from the Division of Examinations relating to the request of Old National Corporation, Spokane, Washington, a bank holding company affiliate, for permission to purchase substantially all of the stock of Murphey Favre Mortgage Co., also of Spokane, a company engaged in the business of loaning money on real estate mortgages, which mortgages are then sold to life insurance companies, banks, and similar lending organizations. The mortgage company was reported to derive its income principally from fees and commissions on mortgage loans, fees from the servicing of loans, and dividends from twelve subsidiaries, eleven engaged in the construction and sale of residential properties on a relatively small scale and the other engaged in the writing of insurance

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of various kinds. Under the terms of the agreement of sale to the holding company affiliate, eight of the twelve subsidiaries would be liquidated down to their nominal capital stock, the reason for not dissolving them being to save taxes and to have the companies available for future use if the occasion should arise.

The memorandum stated that on December 30, 1946, the Board issued a general voting permit to Old National Corporation pursuant to section 5144, Revised Statutes, entitling it to vote the stock which it owned or controlled of the Old National Bank in Spokane, Spokane, Washington, and the First National Bank in Spokane, Spokane, Washington, and the Corporation agreed, among other things, that without the permission of the Board it would not cause or permit any change to be made in the general character of its business or investments.

In a letter dated May 13, 1952, the Federal Reserve Bank of San Francisco recommended that the Board approve the application of the holding company affiliate for permission to acquire the controlling interest in Murphey Favre Mortgage Co. and its subsidiaries, and it was the recommendation of the Division of Examinations that in view of the character of management of the holding company affiliate and its subsidiaries, the conservative policies pursued, and the probable financial benefit to the holding company affiliate, the Board interpose no objection to the acquisition, subject to the conditions (1) that, as soon as practicable, and in any event not later than December 31, 1957, Old National Corporation should

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divest itself of any interest in the real estate and construction companies owned or controlled by Murphey Favre Mortgage Co., (2) that, meanwhile, such companies should not engage in large-scale subdivision developments and would continue as in the past, with possible minor exceptions, to construct residential or other properties only under firm commitments with prospective owner-occupants, and (3) that Murphey Favre Mortgage Co. should not acquire any additional subsidiary without the consent of the Board. The Division also recommended that the Federal Reserve Bank be advised that, although it would not be necessary for the mortgage company or its subsidiaries to amend their charters to eliminate authority to deal in securities, Old National Corporation should execute promptly a resolution stating that the mortgage company and its subsidiaries were not engaged, and would not be permitted to engage, in the securities business.

The memorandum stated that although the Division's recommendation, which would permit Old National Corporation to acquire temporarily the indirect control of businesses wholly unrelated to banking, might seem to be contradictory to the Board's position in favor of requiring bank holding companies to divest themselves of such interests, the following factors had been taken into consideration:

- (1) That Congress had not yet enacted into law a prohibition on the holding of nonbanking interests by bank holding companies;

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- (2) That the Spence Bank Holding Company Bill, now pending in the House of Representatives, would allow a period of two years from its effective date for divestment of nonbanking interests, which period could be extended to five years if, in the Board's judgment, such an extension would not be detrimental to the public interest;
- (3) That the request of Old National Corporation was necessitated only by the provisions of the standard general voting permit agreement requiring the Board's permission before making any change in the general character of its business or investments; and
- (4) That this provision was included in the form of agreement when the Board adopted it in December 1935, not for the purpose of preventing acquisition of nonbanking enterprises, but rather with a view to preventing a holding company affiliate which had been granted a general voting permit from changing its business or investments in a way which might have an adverse effect on the condition of the holding company affiliate or its relationships with its subsidiary banks.

After reviewing the circumstances of the case and the reasons for the favorable recommendation of the Division of Examinations, Mr. Sloan stated that at the instance of Governor Robertson, he had called Mr. A. W. Witherspoon, President of Old National Corporation, by telephone to inquire whether the imposition of a condition that the corporation should divest itself of the real estate and construction subsidiaries within a period of six months to two years would render the proposed purchase entirely unattractive or otherwise impractical. He said Mr. Witherspoon stated that his interest in acquiring the mortgage company was to increase the income of the holding company, which had paid no dividends from its organization in 1933 to about 1946 and only nominal dividends since then,

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that he did not feel the earnings of the two banks controlled by the holding company should be expended in dividends although some stockholders, particularly a few corporations, had been pressing for better returns, and that he felt the mortgage company, which had an excellent reputation, would produce satisfactory income and that the operation of the construction subsidiaries on the modest basis proposed was essential to the profitable operation of the mortgage company. Mr. Sloan said that, although Mr. Witherspoon was aware of the fact that future legislation might require the divestment of the interest in the construction companies at a somewhat earlier date, he asked that the Board consider approval of the purchase on the condition that the holding company would divest itself of the construction companies by the end of 1957 and with the understanding that the construction companies would not undertake the construction of more than 25 or 30 houses each year upon property now under option and, almost without exception, after a firm commitment from prospective owner-mortgagors.

Mr. Sloan said that Governor Robertson, after reviewing the case, concluded that in all the circumstances, the Board should approve the request subject to the conditions proposed in the memorandum from the Division of Examinations.

In reply to a question by Governor Vardaman whether any commitment by Mr. Witherspoon to the effect that the holding company would divest

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itself of its interest in the construction companies by the end of 1957 would be binding on a different management, Mr. Sloan said that in the event of violation of the commitment the Board could move to cancel the outstanding general voting permit, which would involve a hearing. He added that there was some doubt whether the holding company was actually obligated to request the permission of the Board to purchase the mortgage company because it might be construed that no substantial change in the character of its business or investments was involved, since the investment in the mortgage company, if it were purchased, would represent only 3.3 per cent of the total assets of the holding company at book value.

At the request of the Chairman, Mr. Vest commented that the Board, in granting voting permits under section 5144 of the Revised Statutes, was not given specific power to require conditions or agreements but that as a matter of practice the Board had required an agreement on the part of the holding company when granting a permit, one condition to the agreement being that there would be no change in the general character of the business or investments of the company without the permission of the Board. He thought that the Board's power in that respect would be upheld if challenged. In this particular case, Mr. Vest said, it was not entirely clear whether the holding company was obliged to seek the Board's permission but since it had done so, the Board was confronted with the question whether to approve and, if so, whether to require agreement to certain

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conditions. In his opinion, the Board would have the power to impose conditions if it chose to do so, and if the holding company accepted such conditions, they would be legally binding although in practice the Board could only revoke the voting permit if the construction companies were not divested at the end of the stipulated period or if the subsidiaries expanded their operations during that period contrary to the agreement.

Mr. Vest stated further that, since the Board's permission had been requested, it must, like any administrative agency, state some reasons if it declined the application and, inasmuch as the factors in this particular case seemed to point in the direction of favorable consideration, refusal apparently would have to rest on the basis of a general policy against the acquisition of nonbanking interests by bank holding companies. He pointed out that if the acquisition had been made without Board permission and had been discovered later in the course of examination of the holding company affiliate, it seemed possible that, in view of the minor nature of the investment, no objection would have been raised on the ground that there had been no substantial change in the character of the holding company's business or assets.

Chairman Martin said that he was favorably impressed with the merits of this particular situation, that he felt an injustice might be done if the special factors involved were ignored and the application

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denied, and that he would favor granting the request on that basis. Governor Evans stated that he likewise would favor approving the request on the basis of the applicant's operating record and the high character of the individuals concerned, that he felt consideration should be given to these factors in the banking business, and that he had no strong opinion whether conditions should be attached to the approval.

Governor Szymczak noted that the holding company had other non-banking interests and that this proposed acquisition would not substantially change the character of its business.

Governor Vardaman said that he was seriously concerned about the Board taking an action in this instance which was not in accord with the policy against acquisition of nonbanking interests which it had expressed in connection with bank holding company legislation and that he could vote to approve the request only on the basis that the amount of the proposed investment was nominal in relation to the total assets of the holding company affiliate.

Governor Powell likewise expressed concern over the fact that approval would be generally contradictory to the Board's policy against nonbank holdings by bank holding companies. He said that despite the small size of the proposed investment, approval of the acquisition might establish a precedent which would be cited in other cases coming before the Board and that he would vote favorably only on the basis that the

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Congress to date had given no directive in this field and therefore the Board was free to act in individual cases in the light of the particular circumstances.

Thereupon, for the reasons stated by the individual members, unanimous approval was given to a telegram to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows, with the understanding that before it was sent, the Secretary of the Board would ascertain from Governor Mills, who was in Cincinnati, whether he would have any objection:

"Board will interpose no objection to acquisition of Murphey Favre Mortgage Co., Spokane, Washington, by Old National Corporation, Spokane, Washington, in accordance with plan set forth in your letter of May 13, 1952, and its enclosures, subject to the conditions (1) that, as soon as practicable, and in any event not later than December 31, 1957, Old National Corporation shall divest itself of any interest in the real estate and construction companies owned or controlled by Murphey Favre Mortgage Co.; (2) that, meanwhile, such companies shall not alter their present type of business and shall not engage in large-scale subdivision developments, and will continue as in the past, with possible minor exceptions, to construct residential or other properties only under firm agreements with prospective owner-occupants; and (3) that Murphey Favre Mortgage Co. shall not acquire any additional subsidiary without the consent of the Board of Governors.

"It will not be necessary for Murphey Favre Mortgage Co. or its subsidiaries to amend their charters to eliminate authority to deal in securities, but Old National Corporation should execute promptly a resolution similar to form, with appropriate revisions where necessary, enclosed with Board's letter to Volberg of September 24, 1946, with respect to Marine Bancorporation, stating that Murphey Favre Mortgage Co. and its subsidiaries are not engaged and will not be permitted to engage in the securities business."

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Secretary's Note: The Secretary communicated with Governor Mills by telephone subsequent to this meeting and was informed that he concurred in the action taken.

There was a discussion of the question whether any action should be taken by the Board at this time to reduce the current 75 per cent margin requirement prescribed in Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchange and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, for the purchase and carrying of registered securities.

Governor Szymczak reviewed recent developments in the stock market, particularly the amount of credit currently involved, stating that customers' debit balances stood at about \$1,315 million as compared with approximately \$1,400 million when the margin requirement was raised from 50 to 75 per cent in January 1951, that according to available figures the amount of stock market credit had been rising somewhat during the last two or three months, that, while the volume of trading remained relatively small, it had shown some evidence of increasing recently, and that prices had advanced somewhat the past few days although they were not quite as high as they had been and were still low if measured by book values and current dividend yields, which averaged about 5.7 per cent.

If the credit structure of the current market were taken solely

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by itself, Governor Szymczak felt that some case could be made for a reduction in the present margin requirements; however, upon reference to the relationship of this credit to the over-all economic situation, the prospective demands of the Treasury incident to its deficit financing, the recent indications of increased credit demands in the private sector of the economy, and the delicacy of the international situation, he was inclined to feel that no action should be taken for the present. He noted in this connection that the Board did not tighten the withdrawal and substitution privilege when it raised the margin requirement to 75 per cent and that if the requirement were lowered this might be conducive to additional credit going into the market. Governor Szymczak also suggested that the factors which had to be taken into account by the Board in considering whether to relax or suspend the consumer credit and real estate credit regulations were not involved in the case of margin requirements.

Mr. Young said that he felt that, in view of the prospective Treasury financing, the Board would want to consider any action on margin requirements in the light of its effect on that financing even though the volume of stock market credit admittedly was not large. He thought there was much to be said for feeling one's way until it became known to what extent the Treasury would have to borrow through the banking system and how much the money supply would be increased thereby. He brought out

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that the money supply rose in the month of May, that the recent decrease in business loans by banks was tapering off, and that other factors seemed to be working in favor of credit expansion although there was no way of knowing how strongly the pressures now becoming apparent would develop. Mr. Young said it would be difficult to predict whether a reduction in margin requirements to 50 or 60 per cent would result in any substantial increase in stock market credit.

In the course of discussion, Governor Vardaman questioned the advisability of basing a decision on the reduction of margin requirements on any factors other than the level of credit involved in the stock market, stating that if the current requirements could not be justified on that basis he considered it inequitable not to reduce them in the light of the recent suspension or relaxation of other selective credit controls.

At the conclusion of a discussion, there was unanimous agreement with a suggestion by Chairman Martin that no action to reduce margin requirements be taken at this time.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Kenyon withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

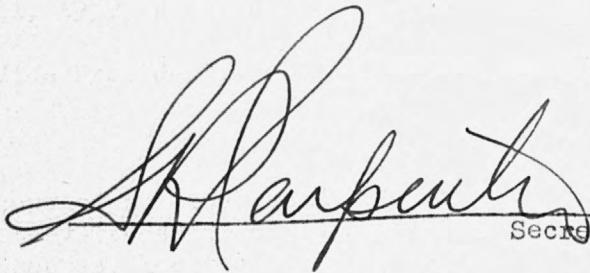
Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 10, 1952, were approved unanimously.

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Letter to Mr. Geo. E. Porter, President, The First Trust Company,
St. Joseph, Missouri, reading as follows:

"In response to the request contained in your letter
of June 3, 1952, the Board of Governors extends to July 15,
1952, the time within which The First Trust Company, St.
Joseph, Missouri, may accomplish admission to membership."

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


Secretary.