

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 27, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Evans
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary

Governor Szymczak stated that in accordance with the decisions at the meetings of the Board on May 8 and May 26, 1952, consideration had been given by a special committee of the Presidents' Conference to the question whether steps should be taken to convey to the members of the Retirement System of the Federal Reserve Banks the fact that the Reserve Banks have the right to discontinue contributions to the Retirement System and have no obligation to make special contributions to offset deficiencies in income or capital losses. He also stated that as a result of the discussions of the committee and the trustees of the Retirement System, Mr. Williams, Chairman of the Board of Trustees, had presented for consideration by the Board of Governors the following statement to be included in the summary of the Eighteenth Annual Report of the Retirement System for the fiscal year ended February 29, 1952, which summary is to be distributed to all members of the Retirement System:

"Regular contributions to the Retirement System are made by both the members and the employing banks. The rules and regulations (section 9) reserve to each employing bank the

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"right to discontinue its contributions in the event of any unforeseen circumstances. The employing banks also would not be obliged to make special contributions to offset any deficiencies which might occur in the event of a substantial reduction in income or capital losses. These are customary provisions in most retirement plans. In the event, however, that any employing bank discontinued its contribution, none of the contributions made by the bank prior to that time could be recovered by it, and all prior contributions would remain the property of the Retirement System to be used for the benefit of the then active members from that bank."

Governor Szymczak went on to say that he had asked that the matter be considered at this meeting of the Board for the purpose of determining whether the statement served the purpose for which it was intended and what action should be taken by the Board with respect to it.

After a brief discussion, unanimous approval was given to the following letter to Mr. Williams, as Chairman of the Board of Trustees of the Retirement System:

"Reference is made to your letter of June 20, 1952, which contained a statement to be included in the Summary of the Eighteenth Annual Report of the Retirement System for the fiscal year ending February 29, 1952.

"The Board of Governors is of the opinion that the statement adequately covers the purposes for which it is intended and would suggest that it be included in Summaries of Annual Reports for subsequent years as well as for the fiscal year ending February 29, 1952. It is understood that the significance of the statement will be explained to members of the Retirement System by the method usually followed by the respective Federal Reserve Banks to explain to their employees the provisions of the Rules and Regulations of the Retirement System."

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The following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 26, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on June 23, by the Federal Reserve Bank of San Francisco on June 24, by the Federal Reserve Bank of Richmond on June 25, and by the Federal Reserve Banks of Cleveland, Chicago, Minneapolis, Kansas City, and Dallas on June 26, 1952 of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Reference is made to your letter of June 18, 1952, enclosing copies of correspondence with the Inland Empire Bank, Umatilla, Oregon, relating to its commitment made to the Federal Deposit Insurance Corporation to maintain capital funds at least equal to the national capital average.

"After considering all of the factors inherent in this situation, the Board does not consider it necessary for you to insist upon an increase in the bank's capital at this time."

Approved unanimously.

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Letter to Mr. Purrington, Assistant Vice President, Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of June 19 regarding the penalty of \$203.84 incurred by the First National Bank in Chicago Heights, Chicago Heights, Illinois, on a deficiency in its reserves for the period ended May 31, 1952.

"It is noted that the deficiency was not the result of the subject bank's being short of funds, but because it was unable to correct the existing deficiency on account of the long week-end holiday; that the bank had average excess reserves amounting to \$92,000 for the period ended June 15; and that the bank has had only one penalty assessed for deficient reserves since 1947.

"In the above circumstances the Board authorizes your Bank to waive the assessment of the penalty in this case."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that the Mar Vista Commercial and Savings Bank, Mar Vista, California, became a member of the Federal Reserve System on June 19, 1952, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and

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"6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act."

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of June 23, 1952, concerning the proposed further delay in the establishment of a branch in Neville Township, Allegheny County, Pennsylvania, by The Colonial Trust Company, Pittsburgh, Pennsylvania, in which you recommend a further extension of not less than six months within which the proposed branch may be established.

"In view of the fact that two years have practically elapsed since approval of the application, the delays cited in completing the arrangements and the present indefinite plans of the trust company with respect to the branch, the Board of Governors does not feel justified in further extending the time within which the branch at Neville Township may be established. Should definite plans be made to establish this branch at some future date, the Board will consider an application in the light of conditions existing at that time."

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of June 19, 1952, enclosing certified copies of resolutions adopted by the Board of Directors of the Windsor State Bank, Windsor, Illinois, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal. It

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"is understood that the bank has applied to the Federal Deposit Insurance Corporation for continuance of insurance of its deposits.

"In view of your recommendation, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Windsor State Bank, Windsor, Illinois, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of the Board's letter of February 19, 1937, (F.R.L.S. #3548) the bank may accomplish the termination of its membership at any time within four months of the date of this letter. If a longer period is required the bank should request an extension of time. Please advise when cancellation is effected and refund is made.

"The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

"It is noted that the bank is withdrawing because of its feeling that from a profit standpoint it cannot afford membership."

Approved unanimously.

Letter to the Organizers of The First State Bank of Oxford, Oxford, Alabama, stating that, subject to conditions of membership numbered 1 and 2, contained in the Board's Regulation H, and the following special condition, 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:

3. At the time of admission to membership, such bank shall have a paid-up and unimpaired capital stock

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"of not less than \$50,000 and other capital funds of not less than \$25,000."

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

Letter to Mr. Patterson, Vice President and General Counsel, Federal Reserve Bank of Atlanta, in regard to the matter of Bean Motor Company, Knoxville, Tennessee, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of June 11, 1952 and enclosures regarding the above matter.

"In accordance with your recommendation, in view of the nature of the evidence, the Board is closing its file in this case."

Approved unanimously.

Letter to Mr. Patterson, Vice President and General Counsel, Federal Reserve Bank of Atlanta, in regard to the matter of Radio Center, Jacksonville, Florida, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of June 16 and enclosures relating to apparent violations of Regulation W by the above registrant.

"It is noted that the registrant was the source of numerous complaints, and that the investigators were in the process of making customer contacts at the time the Regulation was suspended.

"As you know, the Department of Justice has advised us that customer contacts are necessary because a prosecution cannot be based solely on the defendant's own

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"records or oral admissions. An analysis of the customer statements enclosed with your letter indicates that there is not sufficient evidence to support a referral to the Department of Justice, and therefore the Board is closing its file in this case."

Approved unanimously.

Letter to Mr. Heflin, Counsel, Federal Reserve Bank of Richmond, in regard to the matter of George C. George, doing business as Regent Appliance Centre, Baltimore, Maryland, a registrant under Regulation W, Consumer Credit, reading as follows:

"In view of the advice received from the Department of Justice regarding the non-applicability of section 2 of the Criminal Code to cases such as this, it appears that a prosecution is not now possible, and the Board is therefore closing its file."

Approved unanimously.

Letter to Mr. Warner, Manager, Credit Department, Federal Reserve Bank of New York, in regard to the matter of Aluminum Construction Company, Buffalo, New York, a registrant under Regulation W, Consumer Credit, reading as follows:

"After this case was forwarded to the Board, it was found that one of the two principals had gone to jail for another Federal offense and that the other principal was conducting the business through a new corporation called Alsar, Inc. The case against Alsar, Inc., is now in court and has been continued until July 14 in order that the defendant may have an opportunity to change its plea from 'not guilty' to 'nolo contendere.'"

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"In the circumstances the Board is closing its file on the Aluminum Construction Company case."

Approved unanimously.

Letter regarding Ely Glass, doing business as Curley Auto Sales; Fitzgibbon Discount Corporation; and Vincent D. Barclay, doing business as Barclay Motor Sales, all of St. Louis, Missouri, registrants under Regulation W, Consumer Credit, to the Honorable James M. McInerney, Assistant Attorney General, Department of Justice, Washington, D. C., prepared in accordance with the action taken at the meeting of the Board on June 10, 1952, reading as follows:

"Pursuant to Section 21 of the Securities and Exchange Act of 1934, made applicable to the Board of Governors by Section 604 of the Defense Production Act of 1950, the Board of Governors is transmitting to you herewith reports concerning acts and practices which appear to the Board to constitute violations of its Regulation W by the three registrants above named. These reports are sent to you in order that you may, in your discretion, institute criminal proceedings."

Approved unanimously.

Letter to Mr. H. N. Berger, President, Fairfield Homes, Incorporated, 111 East Live Oak Avenue, Arcadia, California, reading as follows:

"This refers to your letter of June 11, 1952, in which you express the opinion that the relaxation of Regulation X, Real Estate Credit, which became effective on June 11, did not give sufficient help to the building industry. The

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"purpose of these changes in the real estate credit regulation was not to 'help' the building industry; the regulation was amended after careful consideration of available information in the belief that the new schedule of terms would enable the construction industry to produce a maximum volume of houses during the remainder of this year without bringing about a further inflationary expansion of mortgage debt.

"In amending the regulation, there was no intention to 'relax' terms in the \$7,000-\$12,000 price range. The schedule was altered in this price range for the purpose of smoothing the schedule by placing it on a graduated scale rather than on the flat-rate scale used since last September, when the terms applicable to values from \$7,000 to \$12,000 were sharply relaxed. Actually, this smoothing process did result in a fairly substantial relaxation for part of the \$7,000-\$12,000 price range; i.e., at \$10,100 the minimum down payment was reduced by \$525 (26 per cent) with the degree of relaxation gradually decreasing to \$50, or 2 per cent, at \$12,000. In the price range above \$12,000, the degree of relaxation increases progressively as the value rises, and it should be noted that the reduction of 10 per cent in the down payment for houses valued at \$25,000 and above is substantially more of a relaxation dollar-wise than the 5 per cent reduction made below \$7,000.

"Opinions may differ on whether any change should have been made in the regulation for houses valued below \$7,000. We agree with you that a relatively small part of building activity is represented by houses selling for \$7,000 or less and, for that very reason, it would appear that little inflationary expansion of credit is likely to result from the changes made in terms in that price range. Although it is estimated that only 50,000 units will be affected by the relaxation for values of \$7,000 or less, it may have a marked effect in some areas, such as Atlanta, Georgia, where approximately 19 per cent of all the houses sold in 1951 were priced at \$7,500 or less.

"As you know, the purpose of the real estate credit regulation is not to stimulate building but rather to restrain inflationary forces inherent in building at a time when activity is at exceptionally high levels. It is believed that the lessening of the restrictiveness of the

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"regulation earlier this month was in accord with economic developments and prospects, and that the changes made do not run the risk of stimulating building unduly.

"We should be happy to discuss further with you the objectives of Regulation X and the procedure followed in administering it in the light of those objectives, as set forth in the Defense Production Act. If you care to call at the Los Angeles branch of the Federal Reserve Bank of San Francisco for such a discussion, we are sure you will find the officers of that Bank happy to review the matter with you."

Approved unanimously.



Secretary.