

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 31, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Szymczak

Mr. Vardaman

Mr. Mills

Mr. Carpenter, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Dembitz, Assistant Director,
Division of International Finance

Mr. Tamagna, Chief, Financial Operations
and Policy Section, Division of
International Finance

Following a statement by Mr. Dembitz concerning the possibility of an application by Banco do Brasil for a loan of \$100 million against the pledge of gold held for its account by the Federal Reserve Bank of New York, Messrs. Dembitz and Tamagna withdrew from the meeting.

Before this meeting there had been sent to each member of the Board present a copy of a proposed letter for the signature of the Chairman to the Honorable Roger L. Putnam, Chairman of the Stabilization Policy Committee, Office of Defense Mobilization, prepared pursuant to a request by Mr. Putnam for a report on the Board's plans for the administration of Regulation X, Real Estate Credit, during the balance of the calendar year 1952.

The letter to Mr. Putnam was approved unanimously in the following form:

7/31/52

-2-

"This is in reply to your letter of July 24 requesting a report on our plans for the administration of Regulation X during the balance of this calendar year.

"As you recognize in your letter, there is little room for discretion in this program under the new Defense Production Act Amendments. At the present time starts are running well below the seasonally adjusted annual rate of 1,200,000 specified in the law, and it appears highly unlikely that they will be up to that rate in any of the three months of June, July, and August. It is, of course, impossible to predict with any certainty the rate of starts in advance, but such information as is available from Veterans Administration data on appraisal requests, FHA data on applications for insurance, and from general reports on construction activity obtained from FHA field offices and Federal Reserve Banks does not provide any basis for anticipating a substantial increase during July or August. Therefore, our present estimate of the situation is that we will be required to announce a 'period of residential credit control relaxation' beginning October 1 and it is our present thinking that, in that event, the Board would suspend Regulation X.

"While we will not be required by law to suspend the portion of the regulation which relates to nonresidential structures at that time, as a practical matter it is not feasible to maintain a credit control in that area after residential credit controls are suspended. The regulation of conventional lending involves a rather elaborate system of registration, the maintenance of special records by lending institutions, and a program of compliance investigations carried out by the Federal Reserve Banks and cooperating supervisory agencies. To maintain this structure for the purpose of regulating an area which uses only a small fraction of the real estate credit extended would be difficult to justify.

"In summary, therefore, we anticipate that we will be required to suspend Regulation X no later than October 1, 1952. We have no present plan for any suspension or relaxation action prior to that time, but we recognize that a situation might develop which would have such effect on the continuity and stability of the construction industry, that we might wish to consider action prior to October 1.

7/31/52

-3-

"As I am sure you are aware, the Executive Order issued pursuant to the new amendments separates the joint responsibilities of the Board and the Housing Administrator during periods of 'residential credit control relaxation', and I assume that Mr. Foley will advise you with regard to the actions he contemplates with respect to the Government-aided programs during such periods."

At this point Mr. Vest, General Counsel, joined the meeting.

Mr. Vest stated that two attorneys from the Department of Justice and an attorney representing the Union National Bank of Youngstown, Ohio, called upon him yesterday afternoon for the purpose of obtaining suggestions as to the drafting of an order which they proposed for issuance by the United States District Court in Cleveland, Ohio, under which certain funds presently held in the custody of the clerk of the court would be deposited with the Federal Reserve Bank of Cleveland, with instructions to the Bank to invest the funds in Government securities. It appeared, Mr. Vest said, that the funds in question (approximately \$4 million) were being held in custody by the court pending the determination of two cases presently in litigation and that it was desired that interest be obtained on the funds. He stated that the attorneys inquired whether the proposed order of the court should specify the investments in which the funds were to be placed or whether this should be left to the discretion of the Reserve Bank.

Mr. Vest said that after advising the attorneys that this would be an unusual type of transaction for a Federal Reserve Bank and

7/31/52

-4-

suggesting that the attorney for the Union National Bank discuss the matter with the Federal Reserve Bank of Cleveland, he talked with President Gidney, of that Bank, by telephone. In the course of their conversation Mr. Gidney referred to the fact that in 1948 the Reserve Bank was designated as depository for funds held by the same court in a somewhat related case, since it likewise involved funds of the Leon Beeghly trust. In 1948, however, the Reserve Bank apparently knew nothing of the matter until after the order had been issued by the court, and, in the circumstances, the Bank decided to comply and invested the funds in Government securities. The Reserve Bank, according to Mr. Gidney, held the funds for some time, during which period the court decided against the Government. Before the Reserve Bank could turn over the funds, however, the Government placed a tax lien upon the securities, thus posing for the Reserve Bank the question whether it should hold the funds or possibly incur a liability. However, the matter was settled without loss to the Reserve Bank.

Mr. Vest stated further that he had gained the impression from Mr. Gidney that the Bank might be favorably disposed to act as depository again should an order be issued by the court. He went on to say that as things stood following yesterday's conference, the attorney for the Union National Bank was going to call Mr. Gidney to seek an appointment with him the first of next week.

7/31/52

-5-

During a discussion of the matter, the view was expressed that the court was without authority to require a Reserve Bank to perform such a service and that the Cleveland Bank would not have been obligated to act as depository in 1948. It was also pointed out that it had been a frequent practice of courts holding funds in custody to place them with commercial banks for investment, that the commercial banks were desirous of securing business of this kind, and that the handling of such funds by a Reserve Bank might be subject to criticism. The risk of incurrence of liability by the Reserve Bank also was noted.

At the conclusion of the discussion, Chairman Martin suggested that Mr. Vest communicate to Mr. Gidney and to the Department of Justice attorneys the views of the Board as expressed at this meeting.

This suggestion was approved unanimously.

Mr. Vest then withdrew from the meeting.

Unanimous approval was given to a request by Chairman Martin for authority to travel to Mexico City during the period September 1-19, 1952, for the purpose of attending the annual meetings of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development as a member of the official United States delegation.

7/31/52

-6-

Governor Mills stated that the Divisions of Bank Operations and Research and Statistics had now completed the project of comprehensively revising and compiling the "all bank" balance sheet statistics for the period 1896-1950, and that the staff intended to clear these data with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation since these agencies had cooperated in the compilation of the statistics. Following such clearance, Governor Mills said, it was planned to send a copy of the United States summary and tables, together with the respective State summary and tables to the supervisor of banks in each State for comments and suggestions, and to send a copy of the United States and New York State summaries and tables to each Federal Reserve Bank for information and comments. He suggested that, if agreeable to the Board, letters to the State bank supervisors would be prepared for the Chairman's signature transmitting copies of the material for their review and offering to supply copies of the compilations in final form for their use.

It was agreed unanimously that the procedures outlined by Governor Mills should be followed, with the understanding that the letters to the State bank supervisors would be sent following Chairman Martin's return from vacation.

7/31/52

-7-

Governor Szymczak reported that in his opinion there had been no developments in the stock market or in the economic conditions generally which would call for a change in the current margin requirements prescribed in Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. He stated that the amount of credit going into the market had increased somewhat, although not in proportion to the increase in stock market prices, and that there were indications of credit expansion in the economy which would suggest that no downward revision in the current requirements should be made at the present.

During a discussion based on Governor Szymczak's remarks, Governor Vardaman said that he continued of the belief that a reduction of the requirements from 75 to 50 per cent would be suitable in view of the relatively small amount of credit currently being used in the market and the relaxation or suspension of credit controls in other fields. He felt that by not acting the Board might be subject to criticism on the ground that it was not exercising the credit controls in its possession in a flexible manner.

Following a brief discussion Chairman Martin suggested that the above matter be discussed further at a meeting when all of the members of the Board were in attendance.

The following additional actions were taken by the Board:

7/31/52

-8-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 30, 1952, were approved unanimously.

The Secretary was informed by Chairman Martin that in accordance with the action taken by the Board on July 22, 1952, he had discussed with Mr. Charles Molony the matter of his entering the employ of the Board with salary at the rate of \$10,800 per annum, and that Mr. Molony had accepted and would report for duty on August 11, 1952.

Letter to Mr. Neely, Federal Reserve Agent, Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of July 15, 1952, the Board of Governors approves the payment of salary to Mr. J. R. Moser, Jr., Federal Reserve Agent's Representative at the Jacksonville Branch, at the rate of \$5,000 per annum, effective August 1, 1952."

Approved unanimously.

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

"In accordance with the request contained in your letter of July 18, 1952, addressed to Mr. Sloan, the Board approves the designation of Waldo I. Parks, Jr. as special assistant examiner for the Federal Reserve Bank of Chicago."

Approved unanimously.

Letter to Mr. Shepard, Federal Reserve Agent, Federal Reserve Bank of Minneapolis, reading as follows:

7/31/52

-9-

"In accordance with the request contained in Mr. Core's letter of July 17, 1952, the Board of Governors approves the payment of salary to Mr. John Johnson, Alternate Assistant Federal Reserve Agent, at the rate of \$6,000 per annum, effective July 16, 1952."

Approved unanimously.

Letter to the Board of Directors, Metairie Savings Bank and Trust Company, Metairie, Louisiana, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors approves the establishment and operation of a branch at 3133 Jefferson Highway, in the Seventh Ward of Jefferson Parish, Louisiana, by the Metairie Savings Bank & Trust Company, Metairie, Louisiana, subject to compliance with the conditions stipulated in the formal approval of State supervisory authorities."

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

Letter for the signature of the Chairman to Mr. Charles B. Coates, Acting Chairman, Citizens Committee for the Hoover Report, Washington, D. C., reading as follows:

"This will acknowledge your letters of June 26 and July 11, 1952, with regard to the final report of your Committee detailing the managerial accomplishments since December 1948 when the findings of the Hoover Commission and its Task Forces were first made public.

"The Commission did not make specific recommendations for changes in operating procedures of the Federal Reserve System with a view to achieving economies and other improvements such as you desire to cite in your final report. While the Board has continued to study and make improvements

7/31/52

-10-

"in its operations, these changes have not been a result of recommendations of the Hoover Commission. Therefore, it is not believed that the Board is in a position to offer any comments which would be of assistance to your Committee in making its final report."

Approved unanimously.

Telegram to Mr. Robinson, Assistant Manager, Los Angeles Branch, Federal Reserve Bank of San Francisco, reading as follows:

"By letter dated July 22, 1952 the Federal Reserve Bank of San Francisco has requested the Board to advise you concerning questions raised by William H. Dentzel, a Los Angeles attorney, regarding the meaning and intent of section 6(o) of Regulation X. Mr. Dentzel apparently is involved in litigation which is concerned with the collectibility of a non-conforming credit.

"While the Board has in the past issued interpretations of various sections of the regulation to serve as guides to individuals contemplating entering into various real estate transactions, no such interpretations have been issued with respect to section 6(o). In the instant case the meaning of the regulation is a matter for the court to decide and under these circumstances an expression of opinion by the Board is not considered to be appropriate.

"No material or transcript in the nature of legislative history about which Mr. Dentzel has specifically inquired is available."

Approved unanimously.

Letter to Mr. L. A. Carr, President, Jacob Schmidt Brewing Company, St. Paul, Minnesota, reading as follows:

"This refers to your letters of May 26 and June 11, 1952, to the Federal Reserve Bank of Minneapolis, requesting a determination as to the status of Jacob Schmidt Brewing Company as a holding company affiliate.

"From the information supplied, the Board understands that the Jacob Schmidt Brewing Company, which is engaged

7/31/52

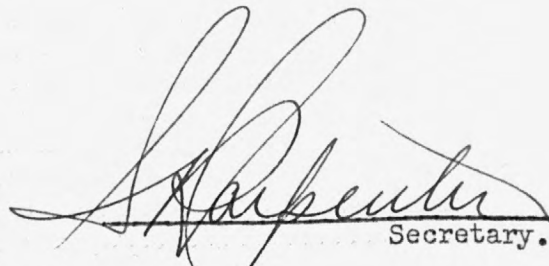
-11-

"exclusively in the brewery business, owns 17,126 of the 25,000 outstanding shares of common stock of the American National Bank of St. Paul, St. Paul, Minnesota, but does not directly or indirectly own or control any stock of or manage or control any other banking institution.

"In view of these facts, the Board has determined that the Jacob Schmidt Brewing Company is not engaged, directly or indirectly, as a business, in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933 as amended, and, accordingly, the Jacob Schmidt Brewing Company is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

"If, however, the facts should at any time differ from those set out above to an extent which would indicate that the Jacob Schmidt Brewing Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

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


Secretary.