

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 15, 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
Mr. Sherman, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Young, Director, Division of
Research and Statistics
Mr. Jones, Analyst, Division of Selective
Credit Regulation

Governor Szymczak stated that yesterday Mr. Roger L. Putnam, Administrator of the Economic Stabilization Agency and Chairman of the Stabilization Policy Committee of the Office of Defense Mobilization, called on the telephone to discuss the action the Board might take in connection with regulation of credit for nonresidential building if it developed that the Board relaxed or suspended Regulation X, Real Estate Credit, pursuant to the requirements of the Defense Production Act Amendments of 1952. Mr. Putnam expressed the view that the Board should continue the regulation of credit for nonresidential building even though the provisions of Regulation X relating to residential credit were suspended. Governor Szymczak went on to say that after discussing the matter with Governor Evans, it was agreed that the matter should be brought to the attention of the Board in

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anticipation of a meeting which he and Governor Evans were to have with Mr. Putnam on the afternoon of Monday, August 18.

There followed a general discussion of building activity and the outlook for construction in the light of the steel strike, demand for housing, the effect of changes in the terms of the real estate credit regulation, and the supply of mortgage funds. During this discussion, Mr. Riefler stated that Mr. Hardy, Assistant Administrator of the Housing and Home Finance Agency, had indicated that Mr. Foley, Administrator, had expressed the view that the Board should suspend the Regulation insofar as it applied to residential construction now and in any event before the date of release in September of the statistics on the rate of housing starts during the month of August.

Mr. Young stated that construction activity generally was at a very high level but that it appeared probable that the number of seasonally adjusted residential starts during each of the three months ending in August would fall below an annual rate of 1,200,000 and that accordingly, it would become necessary under the Defense Production Act Amendments of 1952 to relax the Regulation not later than October 1. With respect to materials, he stated that except for certain steel items, building supplies were at peak

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levels and that there was plenty of equipment available for sustained high level construction, particularly residential building.

In a discussion of the action that the Board might take, the members of the Board present were agreed (1) that no decision should be made with respect to the suspension of the regulation of credit for residential construction until the figures on the rate of housing starts for August are available, and (2) that no commitment should be made at this time on the action to be taken relating to the regulation of nonresidential construction credit.

During the foregoing discussion Mr. Thurston, Assistant to the Board, entered the room, and at its conclusion Messrs. Riefler, Young, and Jones withdrew.

Governor Robertson stated that as a part of the emergency program and in accordance with the recommendation of all Federal Reserve Banks, he would recommend that the Board place a supplementary order for printing 45 million additional sheets of Federal Reserve notes during the fiscal year ending June 30, 1953. He also said that, in connection with the emergency program, the Treasury had suggested that additional amounts of unfit \$1 bills be held by the Federal Reserve Banks in order to build up a larger reserve

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supply of such currency and that it had raised the question whether the Reserve Banks would provide storage space for such unfit \$1 bills. Governor Robertson stated that since such storage was primarily the responsibility of the Treasury, he had asked Mr. Leonard, Director, Division of Bank Operations, to discuss the matter with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, for the purpose of determining the extent to which the Treasury might arrange for such storage at mints or elsewhere, and that while he felt that the Federal Reserve Banks should cooperate fully with the Treasury in this program, he had no recommendation to submit to the Board pending a report from Mr. Leonard concerning the discussion with Mr. Bartelt.

Thereupon, unanimous approval was given to a letter to The Honorable, The Comptroller of the Currency, Washington, D. C., reading as follows:

"It is respectfully requested that you place with the Bureau of Engraving and Printing an order for printing 45,000,000 additional sheets of Federal Reserve notes during the fiscal year ending June 30, 1953. This supplements the order for 60,880,000 sheets contained in our letter of June 24, 1952.

"Information as to the distribution of the 45,000,000 sheets by Federal Reserve Bank and denomination will be supplied at a later date."

At this point the following members of the staff joined the meeting:

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Mr. Vest, General Counsel
Mr. Sloan, Director, Division of
Examinations
Mr. Hostrup, Assistant Director,
Division of Examinations
Mr. W. D. Smith, Federal Reserve
Examiner, Division of Examina-
tions

Governor Robertson stated that an informal request had been received through the Federal Reserve Bank of New York from The Marine Trust Company of Western New York, Buffalo, New York, a subsidiary of Marine Midland Corporation, that the Board approve a proposal under which that bank would purchase the assets and assume the liabilities of the Bank of Hamburg, Hamburg, New York, a member bank, and establish a branch of The Marine Trust Company in the town of Hamburg. Governor Robertson said that in addition to the information submitted through the Federal Reserve Bank of New York, Mr. Bayard F. Pope, Chairman of the Board of Marine Midland Corporation, had called him on the telephone yesterday concerning the matter and indicated that an early decision was desirable since, if the Board's view was favorable, the proposal would then be presented to appropriate State authorities.

Governor Robertson then reviewed the reasons for the proposed consolidation and establishment of a branch and the basis on which it would be accomplished, referring to a memorandum prepared in the Division of Examinations under date of August 13, 1952

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regarding the request, to which was attached a memorandum from Mr. Vest dated August 13, discussing the Clayton Act aspects of the proposed acquisition. In his comments, Governor Robertson stated that information submitted by the Federal Reserve Bank of New York indicated that The Marine Trust Company contemplated the payment of a substantial premium for the assets of the Bank of Hamburg but that no objection could be made to the acquisition from the standpoint of the capital position of The Marine Trust Company following the consolidation. He added that the Bank of Hamburg had total assets of \$9,166,000, that it was one of two competing banks in the village of Hamburg, and that following the establishment of a branch of The Marine Trust Company, there would remain one other bank in the town. Both the Federal Reserve Bank of New York and the Division of Examinations recommended approval of the proposal, Governor Robertson said, and he also recommended approval on the grounds that the terms of the acquisition did not provide a basis for objection and the only reason that might be considered for not giving approval at this stage would be the possible bearing of the Clayton Act on the question whether the purchase would result in a lessening of competition or a tendency toward monopoly. Since the matter was not one which came within

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the purview of the Clayton Act, Governor Robertson said, he would recommend approval of the pending proposal with the understanding that a letter would be written to Mr. Pope informing him that it was understood from his recent conversation with Chairman Martin that other acquisitions were contemplated and that the Board, through the Federal Reserve Bank of New York, would make a survey of the position of the Marine Midland Group in the areas which it served for use in connection with the consideration of any action that the Board might be called upon to take with respect to such acquisitions.

Governor Evans stated that he was opposed to approval of the present request, that he felt it would be a mistake for the Board to give its approval to such an acquisition at this time, and that the Board should inform Mr. Pope that a Clayton Act proceeding was now before the courts and that it would not approve any other acquisition of the type contemplated until the courts had handed down a decision which would provide some guide as to when expansion of bank holding companies had reached a point where there was a tendency towards monopoly. He said that he viewed with alarm the increasing rapidity with which large banks were taking over smaller banks throughout the country and that in his

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opinion the independent bank represented one of the last bulwarks of private enterprise and the capitalistic system.

In response to a request from Governor Szymczak, Mr. Vest stated that the proposed transaction did not come within the purview of the Clayton Act as such because it contemplated a purchase of assets rather than a purchase of stock. On the other hand, he said, the fact that one of the banks in the group would take over another bank and convert it into a branch was an element which might possibly have a bearing in any proceeding that might be brought at any time in the future against Marine Midland Corporation under Section 7 of the Clayton Act. The question, he said, appeared to be whether the Board wished to formulate a basic policy at this time with respect to the activities of Marine Midland Corporation and perhaps other bank holding companies, or whether it would prefer to wait until the Supreme Court had handed down a decision in the Transamerica proceeding under the Clayton Act. Under all the circumstances, Mr. Vest felt that Governor Robertson's recommendation offered a good solution to the request now before the Board since it would give approval to a single transaction involving a relatively small bank and would put Marine Midland Corporation on notice that the Board would make a full investigation through the Federal Reserve Bank of New York before passing

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on the other contemplated absorptions which had been outlined informally by Mr. Pope.

Governor Szymczak stated that inasmuch as the proposed purchase of the assets and assumption of liabilities of the Bank of Hamburg did not fall within the terms of the Clayton Act and since the terms of the purchase did not offer a basis for objection, he would vote to approve it since he did not feel the Board was ready to take a position at this time with respect to what constituted a basis for action against holding companies on the grounds that they were tending toward monopoly.

Thereupon, upon motion duly made and seconded, Governor Robertson was authorized to inform Mr. Pope by telephone that the Board would approve the proposed absorption and establishment of a branch on the basis of the terms submitted through the Federal Reserve Bank of New York. On this action, Governor Evans voted "no". In taking this action, it was understood that a letter setting forth the Board's approval and informing Mr. Pope of the study to be made through the New York Bank would be prepared and submitted to the Board for approval.

There were presented 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

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Reserve Bank of St. Louis on August 11, by the Federal Reserve Bank of San Francisco on August 12, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas on August 14, and by the Federal Reserve Bank of Atlanta on August 15, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point all of the members of the staff except Messrs. Carpenter and Sherman withdrew and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 14, 1952, were approved unanimously.

Memoranda recommending that the resignations of the following employees be accepted, effective the dates indicated:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
	Memorandum from Mr. Sloan, Director, Division of Examinations	
8/12/52	Edward K. O'Malley Assistant Federal Reserve Examiner	8/26/52
	Memorandum from Mr. Bethea, Director, Division of Administrative Services	
8/14/52	James B. Martin, Operator (Tabulating Equipment)	8/13/52

Approved unanimously.

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Memorandum dated August 7, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that Kathleen J. O'Connor, Records Clerk in the Office of the Secretary, be transferred to the position of Clerk in the Division of Administrative Services, with no change in her basic salary at the rate of \$3,495 per annum, effective August 17, 1952. The memorandum also stated that the Secretary's Office was agreeable to this transfer.

Approved unanimously.

Memorandum dated August 12, 1952, from Mr. Allen, Director, Division of Personnel Administration, recommending that the basic salary of Madeleine E. Benton, Secretary to Governor Mills, be adjusted from \$6,200 to \$5,800 per annum, effective August 17, 1952.

Approved unanimously.

Memorandum dated August 11, 1952, from Mr. Leonard, Director, Division of Bank Operations, recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective August 17, 1952:

<u>Name and Title</u>	<u>Salary Increase</u>	
	<u>From</u>	<u>To</u>
Esther W. Conover Supervisor, Reserve Bank Statement Unit	\$4,160	\$4,295
Helen A. Bennett, Clerk-Stenographer	3,030	3,175

Approved unanimously.

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Memorandum dated August 5, 1952, from Mr. Dembitz, Assistant Director, Division of International Finance, recommending the appointment of Joan Marie Gilbert as Economist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$5,940 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated August 13, 1952, from Mr. Allen, Director, Division of Personnel Administration, recommending the appointment of Beatrice R. Garrido as Substitute Maid in that Division, on a temporary basis through December 31, 1952, with basic salary at the rate of \$9.50 per day for each day worked, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Arthur H. Willis as an officer of the Federal Reserve Bank of New York, with the title of Acting Assistant Secretary, for the period August 7,

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"1952 through March 31, 1953 at the rate of \$10,000 per annum, which is the rate fixed by the Board of Directors as reported in your letter of August 8, 1952."

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of August 6, 1952, the Board approves the appointment of John J. O'Grady as an assistant examiner for the Federal Reserve Bank of Philadelphia.

"If the appointment is not made effective September 2, 1952, as planned, please advise us.

"It is understood that Mr. O'Grady will discontinue his part-time employment with Driscoll, Millet and Company, before the effective date of his appointment as an assistant examiner for your bank."

Approved unanimously.

Letter to Mr. Whittier, Federal Reserve Agent, Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of August 7, 1952, the Board of Governors approves the appointments of Messrs. Joseph R. Campbell and Edward Kerns as Alternate Assistant Federal Reserve Agents with salaries at their present rates of \$8295, and \$5444, per annum, respectively.

"This approval is given with the understanding that Messrs. Campbell and Kerns will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of their duties. When not engaged in the performance of their duties as Alternate Assistant Federal Reserve Agents they may, with the approval of the Federal Reserve Agent or, during

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"a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with their duties as Alternate Assistant Federal Reserve Agents.

"Messrs. Campbell and Kerns should execute the usual oath of office which should be forwarded to the Board of Governors together with advice of the effective dates of their appointments."

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of August 5, 1952, the Board approved the appointment of Rene M. Junca as an assistant examiner for the Federal Reserve Bank of Atlanta.

"If the appointment is not made effective August 18, 1952, as planned, please advise us."

Approved unanimously.

Letter to The First National Bank of Dalton, Dalton, Georgia, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Georgia. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, and guardian of estates, shall be subject to the provisions of the Federal Reserve Act and the

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"regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

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

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

"Reference is made to your letter of July 31, 1952, submitting for the Board's consideration a program under which Marshall and Ilsley Bank, Milwaukee, Wisconsin, proposes to retire \$1,000,000 par value 4 per cent cumulative preferred stock held by local interests and simultaneously sell \$3,000,000 par value 4-1/2 per cent of so-called capital notes to some insurance company. Since the transactions will result in a reduction of \$1,000,000 in the basic capital of the bank, the Board in effect is requested to give its consent to this reduction under the provisions of Section 9 of the Federal Reserve Act, as amended July 15, 1952.

"The Board has given careful consideration to this matter and is unwilling to consent to the reduction in capital involved. In the Board's opinion there is no urgency in this situation which would warrant the substitution of a long-term installment loan for any part of the equity capital of the bank. Please advise the Marshall and Ilsley Bank accordingly.

"The Board does not look with favor on the increasing tendency of banks to turn to capital notes and debentures as a means of augmenting the protection afforded depositors, and was pleased to learn that this view is shared by the officers of your Reserve Bank. For your information, the entire subject of adequacy of bank capital, including the sale of notes and debentures to private investors, is now

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"under study by the Board and will be taken up with other supervisory authorities in the very near future."

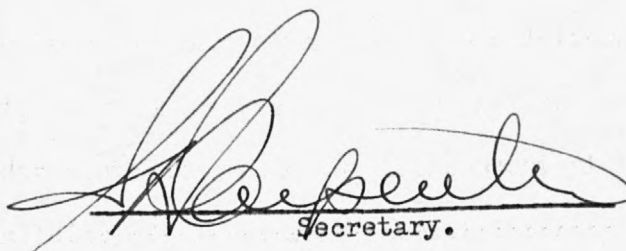
Approved unanimously.

Telegram to Mr. Cowan, Assistant Counsel, Federal Reserve

Bank of New York, reading as follows:

"Reurlet of August 8, 1952, with enclosures, relating to the proposed construction of a building by the Washington Heights Medical Group, the Board notes that the Group will provide comprehensive medical services and complete facilities, including radiological, pathological, and clinical laboratories, dispensaries, physical therapy, BMS (basal metabolism rate tests) and EKG (electrocardiogram) equipment and facilities for minor surgery. These services are of the same type as those enumerated in X-64. In addition, it is noted that in-patient facilities, complete with extensive medical services normally provided by hospitals, will also be provided. In these circumstances, if you consider that the rental of 20 per cent of the floor area for nonmedical purposes is only a temporary arrangement pending anticipated expansion of the volume of the medical center's operations, you may treat the entire structure as exempt from Regulation X under section 2(r)."

Approved unanimously.



Secretary.