

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 19, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.

Mr. Evans

Mr. Vardaman

Mr. Mills

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Riefler, Assistant to the Chairman

Mr. Vest, General Counsel

Mr. Young, Director, Division of
Research and Statistics

Mr. Benner, Assistant Director, Division of
Selective Credit Regulation

At the meeting on August 15, 1952 Governor Szymczak reported on a telephone call which he had received the previous day from Mr. Roger L. Putnam, Administrator of the Economic Stabilization Agency and Chairman of the Stabilization Policy Committee of the Office of Defense Mobilization, concerning the action that the Board might take in connection with the regulation of credit for nonresidential building in the event the Board relaxed Regulation X, Real Estate Credit, pursuant to the requirements of the Defense Production Amendments of 1952; and it was understood that Governor Evans would meet with Mr. Putnam on August 18 to discuss the matter further.

At this meeting Governor Evans reported on his conference with Mr. Putnam. He stated that he was accompanied by Messrs. Riefler and Noyes,

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Director, Division of Selective Credit Regulation, while Mr. Putnam had with him two of his economic advisers.

Governor Evans said that Mr. Putnam and his colleagues appeared somewhat concerned by the recent rise in instalment credit and seemed to feel that general credit controls were not as restrictive as selective controls. After some discussion of these points, he said, Mr. Putnam raised the question whether the Board would continue its restrictions on commercial construction, with perhaps a reduction in the down payment requirement from 50 to 33-1/3 per cent, if the current statutory provisions forced the declaration of a period of residential credit control relaxation. Governor Evans said he replied to the effect that the Board had not reached a decision on that point but that in his opinion the Board would be reluctant to continue restrictions in this single segment of the real estate construction field.

At the request of Governor Evans, Mr. Riefler then commented upon a suggestion which was made by Mr. Putnam and his advisers that Regulation X might be kept in force even during a period of mandatory credit control relaxation, with the down payment requirement on housing lowered to 5 per cent, with the thought that the provisions relating to the maximum maturity on loans might have some restrictive effect. He said it was pointed out by the Board's representatives that under these conditions the regulation would be completely ineffective since the terms would be more lax than those

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customarily extended in the field of conventional financing, and that the major area where there would be any room left for the restriction of credit terms as a matter of policy would be in the field of Government-aided housing credit. Following a discussion along these lines, Mr. Riefler said, Mr. Putnam concluded that it would be desirable to invite Mr. Foley, Housing and Home Finance Administrator, to meet with him and his advisers and possibly to lay the matter before the Stabilization Policy Committee.

Governor Evans said that at the conclusion of the meeting he urged Mr. Putnam to transmit whatever views he had to the Board of Governors before the middle of September, when the publication of data on housing starts by the Bureau of Labor Statistics might reveal that a mandatory relaxation of the terms of Regulation X would have to be announced effective not later than the first of October.

There followed a discussion of Governor Evans' report during which it was suggested that it would be desirable to advise Mr. Foley of the views expressed at the meeting yesterday in order that he might be kept abreast of developments. It was understood that Governor Evans would communicate with Mr. Foley for that purpose.

The discussion then turned to a review of the procedure pursuant to which the declaration of a period of residential real estate credit relaxation would be made. During the course of the discussion Governor

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Vardaman stated that he would like the record to show that he would favor a suspension of Regulation X by the Board immediately after the publication of data by the Bureau of Labor Statistics indicating that shortly thereafter a relaxation of the terms of Regulation X would become mandatory.

During the foregoing discussion Mr. Sherman, Assistant Secretary, joined the meeting, and at its conclusion Mr. Benner withdrew.

Reference was made to the following draft of letter to the Presidents of all Federal Reserve Banks which had been in circulation among the members of the Board and which Governor Evans requested be discussed at a meeting:

"Under date of May 23, 1952, the Board requested from the Reserve Banks certain information regarding the payment of State and local taxes, including charges for automobile license plates, etc. In accordance with the understanding at the joint meeting of the Conference of Presidents and the Board of Governors on June 19, 1952, we are enclosing a summary of the replies made by the Reserve Banks to the Board's letter on this subject. In order that you may be fully advised as to the position of the several Banks, we are also enclosing a copy of each of the replies made by the Banks.

"You will observe that the variances among the Reserve Banks with respect to the payment of State and local taxes arise in part from differences in the local tax laws, including such matters as whether the incidence of sales taxes is upon the seller or the purchaser and whether or not the purchase of automobile tags is regarded as a payment for a license or a payment of tax. However, these variances in practice also appear to be due to some extent to the differences among the Reserve Banks in their approach to the subject. While recognizing the merit of the various points of view expressed by the Reserve Banks, it seems to the Board that the fact that Congress has provided tax exemption for the

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"Federal Reserve Banks in section 7 of the Federal Reserve Act imposes upon the Reserve Banks a responsibility to refrain from paying taxes that are within the exemption of section 7 in so far as it is practicable to do so.

"The Board requests, therefore, that after studying the practices of the other Reserve Banks as disclosed by the enclosed letters, you make a careful review of the practices of your Bank with respect to the payment of State and local taxes (including charges for automobile license tags) in order to determine whether it would be practicable to eliminate any of the taxes which you are now paying. It is the Board's view that the exemption of the law should be claimed and the tax not paid in cases where, in the opinion of your Counsel, the Federal Reserve Bank is not legally subject to the tax, and it is feasible to obtain and enjoy the exemption without incurring administrative burdens disproportionate to the amount of tax saving involved. It is recognized that in some instances the benefits of the exemption of the Federal Reserve Act may be obtainable in practice only by resort to litigation; and the question whether litigation would be justified in any case would, of course, have to be considered in the light of the probabilities of success, the amount of possible savings to the Bank over the years, and related factors."

Governor Evans said that he had no objection to the letter as prepared but that he wished to make certain that it was the feeling of all of the members of the Board that the Reserve Banks should be requested to seek exemption from taxation to the point of resorting to litigation which might result in undesirable publicity for the Banks.

At the request of Governor Mills, Mr. Vest discussed the request of the Patman Subcommittee for information concerning the payment of State and local taxes by the Reserve Banks, the nature of the information which was supplied to the Subcommittee following the receipt of statements from

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the individual Reserve Banks, the discussion of this matter with the Presidents' Conference on June 19, 1952, and Chairman Martin's statement at that time that a summary of the replies from the Reserve Banks would be sent to all of the Banks for their further consideration. He said that the general objective of the proposed letter was to point out the lack of uniformity in the practices of the various Reserve Banks with a view to minimizing these differences as far as practicable.

Following discussion the letter was approved unanimously in the form set forth above.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, 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 August 18, 1952, were approved unanimously.

Memorandum dated August 15, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Helen A. Golway, Cafeteria Helper in that Division, be accepted to be effective, in accordance with her request, at the close of business August 29, 1952.

Approved unanimously.

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

"Referring to your letter and recommendation of August 11, 1952, the Board of Governors extends until December 29, 1952 the time within which the Equitable Trust Company, Wilmington, Delaware, may establish a branch in the Wilmington Merchandise Mart, as approved by the Board under date of September 29, 1950."

Approved unanimously.

Letter to Mr. Shuford, Vice President and General Counsel, Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of August 1, 1952, and its enclosures, concerning the service of Mr. John C. Jester as Vice President of The Mercantile National Bank in Dallas, Dallas, Texas, and as director of Managed Funds, Inc., an open-end investment company with its principal offices at St. Louis, Missouri.

"On the basis of the facts presented, the Board agrees with your conclusion that section 32 of the Banking Act of 1933, as amended, and the Board's Regulation R, prohibit Mr. Jester from acting as director of Managed Funds, Inc., while serving at the same time as Vice President of The Mercantile National Bank in Dallas. As you indicated, there appears to be no reason why the case should not be regarded as subject to the principles stated in the interpretation published at 1951 Federal Reserve Bulletin 645, particularly the third paragraph thereof.

"While the Board fully appreciates the reasons for Mr. Jester's desire to serve both institutions and that abuses may not result therefrom, it does not believe that it can properly amend Regulation R, as he suggested, to make an exception broad enough to include his case. In answer to similar suggestions that have been made from time to time, the Board has indicated that section 32 is aimed at relationships which present the opportunity for improper action regardless of whether abuses actually exist. You will recall,

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"of course, that in 1951, and earlier in 1942, the Board considered amending Regulation R so as to permit officers, directors and employees of open-end investment companies to serve as officers, directors and employees of member banks. On both occasions the Board decided against such amendment."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In the Board's letter of March 11, 1946, the Federal Reserve Banks were advised that the Board had approved payment by the Federal Reserve Banks of two-thirds of the cost of hospitalization and surgical benefits of a group hospitalization program.

"In line with this letter, the Banks submitted their plans for the Board's approval together with the estimated costs. Subsequent changes in benefits and costs have likewise been submitted to the Board.

"In some instances recently, Federal Reserve Banks have submitted to the Board relatively minor increases in the costs of such plans. In each of these instances the increased cost had been initiated by the Blue Cross organization, entailed no significant benefit increases, and left the Bank no alternative but to pay the increased rate or withdraw from the group.

"Where these circumstances exist, it is not necessary for the matter to be submitted to the Board of Governors for its consideration. However, it will be appreciated if you will advise the Board of any change in benefits and costs in order that we may have current information with respect to these items.

"It is assumed that your Bank will obtain such clearance as is necessary from the proper stabilization authorities."

Approved unanimously.

Letter to Mr. Norris C. Bakke, Associate General Counsel, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

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"This refers to your letter of July 25, 1952, with which you enclosed a photostat of a certificate of deposit form of The First National Bank of St. Paul, Minnesota, bearing the designation '2-1/2% Three Year Savings Certificate'. Such form was forwarded to you by an insured nonmember bank which made inquiry as to the propriety thereof. You asked to be advised as to whether such certificate of deposit form has been approved by this Board.

"While it does not appear that the particular certificate of deposit form in question or one identical therewith has been the subject of any previous inquiry received by the Board, similar certificates of deposit have been passed upon and regarded by the Board as properly classifiable as 'time certificates of deposit' under the Board's Regulation Q. One such case, although not involving the language 'Savings Certificate', was the subject of the Board's letter to you of May 13, 1948. In a more recent case, however, a national bank in Minnesota wished to use a certificate of deposit which, like that in use by a national bank in another State, carried the designation 'Savings Certificate'. Briefly, the Board raised no objection to the use of such designation.

"The certificate of deposit form enclosed by you clearly complies with Regulation Q as a 'time certificate of deposit' unless, as you suggested, some impropriety arises from the use thereon of the word 'savings'. As just indicated, however, the Board has not regarded the designation 'Savings Certificate' on a 'time certificate of deposit' as conflicting with the restrictions in the law or in its Regulation Q. Of course, certificates of deposit, regardless of how designated, may not be used in lieu of a passbook in the case of a 'savings deposit'; but where the actual contract between the bank and its customer otherwise qualifies as a 'time certificate of deposit', the Board seriously doubts that it would be justified in raising an objection based solely upon the designation of the certificate of deposit as a 'Savings Certificate'."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

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"It appears highly likely that the operation of the procedure prescribed in the Defense Production Act Amendments of 1952 will require a substantial removal of Regulation X from residential structures not later than October 1. In this connection it will be necessary for the Board to determine whether the regulation should be continued with respect to nonresidential structures.

"The Board would appreciate your views as to whether it would be desirable to continue the regulation with respect to nonresidential structures if it is suspended for residential structures and, if you feel that it should be continued, whether the present equity requirement of 50 per cent should be maintained.

"It would be most helpful if your views in this matter could be available to the Board by the end of this week."

Approved unanimously.


Secretary.