

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

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant 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

In response to a request by Chairman Martin for a report on the meeting yesterday of the Stabilization Policy Committee, which was attended by Messrs. Young and Benner, Mr. Benner made substantially the following statement:

There were two items on the agenda pertinent to the regulation of real estate credit, the first of which concerned the question whether the current provisions for Government-aided housing programs should be curtailed at this time to restrict the expansion of credit. Mr. Foley, Housing and Home Finance Administrator, was quite resistant to any suggestions that activities of the Federal Housing Administration be curtailed in any way. He stressed the direction of Congress, indicated in the legislative record, that the programs authorized in the National Housing Act should be carried out at the present level regardless of the continuance or

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suspension of Regulation X, Real Estate Credit. Mr. Robert Turner, of the Council of Economic Advisers, who acted as chairman of the meeting, pursued the subject and argued that such devices, which were appropriate for use during a period of credit contraction, should not be used during a time such as the present. Mr. Foley felt they served a constructive purpose even under current conditions.

Regarding the requirement for down payments on housing by veterans, Mr. Foley stated that this was a complicated matter. Veterans' organizations, and perhaps the Veterans Administration, would exert pressure, and there were certain legal considerations to be taken into account. These matters, and the so-called "veterans' preference", were complications which Mr. Foley thought could not be discussed thoroughly at the meeting yesterday, but should be reserved for a conference with appropriate officials of the Government. Mr. Turner agreed that little could be accomplished through further discussion.

Mr. Foley expressed the view that Regulation X should be continued even if the rate of housing starts required the declaration of a period of residential real estate credit relaxation, with the down payment requirements reduced to maximum limits permitted by law, but did not spell out his reasons for adopting this position. (He mentioned, in addition, that the Federal Reserve might possibly place shorter limitations on the permissible maturity for conventionally-financed residential construction, for example a 10-year maximum.)

Mr. Foley also indicated that it might be fitting to give reconsideration to the 4 and 4 1/2 per cent rates charged for Government housing loans.

The second topic of interest on the agenda concerned the question whether Regulation X should be retained as to nonresidential construction if the other provisions were suspended. However, the time allotted for the meeting had expired and discussion of this matter was deferred until a later meeting.

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At the request of Governor Evans, Mr. Benner commented on the replies of the Federal Reserve Banks to the Board's telegram of August 19, 1952 requesting their views as to the desirability of continuing the regulation of nonresidential construction credit in the event the other provisions of Regulation X were suspended. He said that, as reported in his memorandum to the Board dated August 26, 1952, only the Federal Reserve Bank of Atlanta favored such a course of action. Mr. Benner also referred to telephone conversations which he had had with Messrs. C. T. Fisher, Jr., Ernest M. Fisher, Clarke, Wilde, and Saulnier, consultants to the Board on real estate credit, concerning this matter, and stated that each of them favored discontinuance of the provisions of Regulation X relating to nonresidential construction on the grounds that the shortage of steel was exaggerated, there would be little effect on the economy, and any controls should be exercised through restrictions of the National Production Authority, which is understood to be currently approving almost all applications except those involving recreational facilities.

Mr. Young said there was an implication in the discussion at yesterday's meeting that Mr. Putnam, Chairman of the Stabilization Policy Committee, would like the whole matter of Regulation X

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policy reviewed again before his committee, presumably at the next scheduled meeting on September 11, before any final determination. He said there was also an implication that there should be full discussion between the Board and the Housing and Home Finance Agency before that date so that the joint views of the two agencies could be expressed. Mr. Young suggested, therefore, that it would be desirable for the Board to indicate its general line of thinking at this time for the benefit of the staff in further conversations with Mr. Foley's office.

In response to a request from Governor Szymczak for his views as to the economic situation during the remainder of the year, Mr. Young said there would be some justification for continuing restraint on commercial building in the same sense that there would be justification for continuing the current margin requirements on stocks because there were indications of continuing pressures in the markets. On the other hand, he pointed out that commercial building represented only a relatively minor part of total construction. Mr. Young said that the value of commercial construction was running at a rate of about \$80 million to \$100 million per month, thus accounting for perhaps \$1.2 billion of economic activity a year, that in some cases the equity was as

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small as 10 or 20 per cent, but that by and large it averaged higher, with terms of credit so arranged as to call for rather rapid amortization, so that the increment in outstanding credit was quite nominal in relation to the large increment in residential real estate credit. He also pointed out that if residential construction were to be permitted freely, this would have to be serviced with commercial facilities. Mr. Young said that except for steel, which might be in rather short supply for a few months, there seemed to be nothing else in the supply picture which would hold up construction, while the labor supply appeared to be easing somewhat so that there was no real basis for continuing restraints on commercial construction credit from the viewpoint of the availability of materials or labor.

Putting all of these factors together, and considering the administrative effort and the burden placed upon lenders in continuing regulation over commercial construction credit, Mr. Young felt that no very strong case could be made for maintaining such regulation and that little would be accomplished by it.

In response to an inquiry by Governor Szymczak as to what could be worked out with Mr. Foley should Regulation X be suspended, Mr. Young explained that with respect to Federal Housing Administration loans under \$12,000 the minimum down payments were practically

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the same as those of Regulation X so that there would be no point in doing anything about those terms. In the case of larger loans there usually were a variety of appraisal and other considerations entering in which resulted in considerably higher down payments than the established minimum. Mr. Young thought that Mr. Foley would like to see something worked out which would require some minimum down payment in connection with Veterans Administration loans or guarantees but that as yet there had been no meeting of the minds with that Administration. He felt that Mr. Foley would like to have the moral support of the Federal Reserve in discussions of that problem.

Mr. Young said he could not follow the reasoning which led Mr. Foley at yesterday's meeting to urge a continuance of Regulation X but thought that Mr. Foley had in mind that this would be a device to help resist pressure for loans to veterans without any down payment requirement.

Following further discussion, all of the members of the Board stated that it was their view at the present time that if the announced rate of housing starts for August made the declaration of a period of residential credit control relaxation mandatory, Regulation X should be suspended in its entirety. It was understood, however, that there might be changes in the economic or international

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situation in the interim which would cause a modification of this position, and also that consideration should be given to whatever views Mr. Foley might express.

Chairman Martin then requested that Governor Evans and the staff proceed with discussions with Mr. Foley and his associates on the basis of the discussion at this meeting with a view to arriving at as full an interagency understanding as possible.

At this point Mr. Hackley, Assistant General Counsel, joined the meeting and Mr. Benner withdrew.

Before this meeting there had been sent to each member of the Board a copy of a memorandum from Mr. Hackley, dated August 25, 1952, to which was attached a draft of a proposed revision of Regulation H, Membership of State Banking Institutions in the Federal Reserve System.

Mr. Hackley stated that, as set forth in his memorandum, the proposed changes in the regulation were primarily for the purpose of conforming the regulation to the provisions of the Act of July 15, 1952, regarding capital requirements for membership in the System and the establishment of branches by member banks, although a few minor revisions which seemed desirable also had been made. Mr. Hackley added that a draft of the revised regulation had been sent

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to the Federal Reserve Banks, that the Banks' suggestions had been considered carefully, and that a number of them had been adopted. He suggested that the revised regulation, if approved by the Board, be made effective September 1, 1952 to allow time for publication in the Federal Register.

Thereupon, unanimous approval was given to the revision of Regulation H as follows, effective September 1, 1952, with the understanding that a copy of the regulation would be sent to each Federal Reserve Bank with the request that the Bank advise of the number of printed copies it would require for distribution within its district:

"REGULATION H

"As amended, effective September 1, 1952

"MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL
RESERVE SYSTEM

"AUTHORITY FOR REGULATION

"This regulation is based upon and issued pursuant to provisions of section 9 of the Federal Reserve Act and related provisions of law.

"SECTION 1. DEFINITIONS

"For the purposes of this regulation--

"(a) The term 'State bank' means any bank or trust company incorporated under a special or general law of a State or under a general law for the District of Columbia, any mutual savings bank (unless otherwise indicated), and any Morris Plan bank or other incorporated banking

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"institution engaged in similar business.^{1/}

"(b) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers, and in addition thereto includes any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends.

"(c) The term 'Board' means the Board of Governors of the Federal Reserve System.

"(d) The term 'board of directors' means the governing board of any institution performing the usual functions of a board of directors.

"(e) The term 'Federal Reserve Bank stock' includes the deposit which may be made with a Federal Reserve Bank in lieu of a subscription for stock by a mutual savings bank which is not permitted to purchase stock in a Federal Reserve Bank, unless otherwise indicated.

"(f) The terms 'capital' and 'capital stock' mean common stock, preferred stock, and legally issued capital notes and debentures purchased by the Reconstruction Finance Corporation which may be considered capital and capital stock for purposes of membership in the Federal Reserve System under the provisions of section 9 of the Federal Reserve Act.

^{1/} Under the provisions of section 19 of the Federal Reserve Act, national banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States are not required to become members of the Federal Reserve System but may, with the consent of the Board, become members of the System. However, this Regulation H is applicable only to the admission of banks eligible for admission to membership under section 9 of the Federal Reserve Act and does not cover the admission of banks eligible under section 19 of the Act. Any bank desiring to be admitted to the System under the provisions of section 19 should communicate with the Federal Reserve Bank with which it desires to do business.

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SECTION 2. ELIGIBILITY REQUIREMENTS

"Under the terms of section 9 of the Federal Reserve Act, as amended, to be eligible for admission to membership in the Federal Reserve System--

"(1) A State bank, other than a mutual savings bank, must possess capital stock and surplus which, in the judgment of the Board, are adequate in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities: Provided, That no bank engaged in the business of receiving deposits other than trust funds, which does not possess capital stock and surplus in an amount equal to that which would be required for the establishment of a national banking association in the place in which it is located, shall be admitted to membership unless it is, or has been, approved for deposit insurance under the Federal Deposit Insurance Act.

"(2) A mutual savings bank must possess surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the place where it is situated.

"The minimum capital required for the organization of a national bank, referred to hereinbefore in connection with the capital required for admission to membership in the Federal Reserve System, is as follows:

If located in a city or town with a population--	Minimum Capital
Not exceeding 6,000 inhabitants	\$ 50,000
Exceeding 6,000 but not exceeding 50,000 inhabitants	100,000
Exceeding 50,000 inhabitants (except as stated below)	200,000
In an outlying district of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of \$100,000 or less	100,000

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"With certain exceptions not here applicable, a national bank must have surplus equal to 20 per cent of its capital in order to commence business.

"SECTION 3. INSURANCE OF DEPOSITS

"Any State bank becoming a member of the Federal Reserve System which is engaged in the business of receiving deposits other than trust funds and which is not at the time an insured bank under the provisions of the Federal Deposit Insurance Act, will become an insured bank under the provisions of that Act on the date upon which it becomes a member of the Federal Reserve System.^{2/} In the case of an insured bank which is admitted to membership in the Federal Reserve System, the bank will continue to be an insured bank.

"SECTION 4. APPLICATION FOR MEMBERSHIP

"(a) State bank, other than a mutual savings bank. - A State bank, other than a mutual savings bank, applying for membership, shall make application on Form F.R. 83A

"^{2/} In the case of a State bank which is engaged in the business of receiving deposits other than trust funds and which at the time of its admission to membership in the Federal Reserve System is not an insured bank, the Board is required under the provisions of sections 4 and 6 of the Federal Deposit Insurance Act to issue a certificate to the Federal Deposit Insurance Corporation to the effect that the bank is a member of the Federal Reserve System and that consideration has been given to the financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act.

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"to the Board for an amount of capital stock in the Federal Reserve Bank of its district equal to six per cent of the paid-up capital stock and surplus of the applying institution.

"(b) Mutual savings bank. - A mutual savings bank applying for membership shall make application on Form F.R. 83B to the Board for an amount of capital stock in the Federal Reserve Bank of its district equal to six-tenths of one per cent of its total deposit liabilities as shown by the most recent report of examination of such institution preceding its admission to membership, or, if such institution be not permitted by the laws under which it was organized to purchase stock in a Federal Reserve Bank, on Form F.R. 83C, for permission to deposit with the Federal Reserve Bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock.

"(c) Mutual savings bank which is not authorized to purchase stock of Federal Reserve Bank at time of admission. - If a mutual savings bank be admitted to membership on the basis of a deposit of the required amount with the Federal Reserve Bank in lieu of payment upon capital stock because the laws under which such bank was organized do not at that time authorize it to purchase stock in the Federal Reserve Bank, it shall subscribe on Form F.R. 83D for the appropriate amount of stock in the Federal Reserve Bank whenever such laws are amended so as to authorize it to purchase stock in a Federal Reserve Bank.^{3/}

"^{3/} The Federal Reserve Act provides that, if the laws under which any such savings bank was organized be not amended at the first session of the legislature following the admission of the savings bank to membership so as to authorize mutual savings banks to purchase Federal Reserve Bank stock, or if such laws be so amended and the bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed in section 9 of the Federal Reserve Act.

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"(d) Execution and filing of application. - Each application made under the provisions of this section and the exhibits referred to in the application blank shall be executed and filed, in duplicate, with the Federal Reserve Bank of the district in which the applying bank is located.

"SECTION 5. APPROVAL OF APPLICATION

"(a) Matters given special consideration by Board. - In passing upon an application, the following matters will be given special consideration.

"(1) The financial history and condition of the applying bank and the general character of its management;

"(2) The adequacy of its capital structure in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities; and its future earnings prospects;

"(3) The convenience and needs of the community to be served by the bank; and

"(4) Whether its corporate powers are consistent with the purposes of the Federal Reserve Act.

"(b) Procedure for admission to membership after approval of application. - If an applying bank conforms to all the requirements of the Federal Reserve Act and this regulation and is otherwise qualified for membership, its application will be approved subject to such conditions as may be prescribed pursuant to the provisions of the Federal Reserve Act. When the conditions prescribed have been accepted by the applying bank, it should pay to the Federal Reserve Bank of its district one-half of the amount of its subscription and, upon receipt of advice from the Federal Reserve Bank as to the required amount, one-half of one per cent of its paid-up subscription for each month from the period of the last dividend.^{1/} The remaining

^{1/} In the case of a mutual savings bank which is not permitted by the laws under which it was organized to purchase stock in a Federal Reserve Bank, it shall deposit with the Federal Reserve Bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock.

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"half of the bank's subscription shall be subject to call when deemed necessary by the Board. The bank's membership in the Federal Reserve System shall become effective on the date as of which a certificate of stock of the Federal Reserve Bank is issued to it pursuant to its application for membership or, in the case of a mutual savings bank which is not authorized to subscribe for stock, on the date as of which a certificate representing the acceptance of a deposit with the Federal Reserve Bank in place of a payment on account of a subscription to stock is issued to it pursuant to its application for membership.

"SECTION 6. PRIVILEGES AND REQUIREMENTS OF
MEMBERSHIP

"Every State bank while a member of the Federal Reserve System--

"(a) Shall retain its full charter and statutory rights subject to the provisions of the Federal Reserve Act and other Acts of Congress applicable to member State banks, to the regulations of the Board made pursuant to law, and to the conditions prescribed by the Board and agreed to by such bank prior to its admission;

"(b) Shall enjoy all the privileges and observe all the requirements of the Federal Reserve Act and other Acts of Congress applicable to member State banks and of the regulations of the Board made pursuant to law which are applicable to member State banks;

"(c) Shall comply at all times with any and all conditions of membership prescribed by the Board in connection with the admission of such bank to membership in the Federal Reserve System; and

"(d) Shall not reduce its capital stock except with the prior consent of the Board.^{5/}

^{5/} This applies to capital stock of all classes and to capital notes and debentures legally issued and purchased by the Reconstruction Finance Corporation which, under the Federal Reserve Act, are considered as capital stock for purposes of membership.

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"SECTION 7. CONDITIONS OF MEMBERSHIP

"Pursuant to the authority contained in the first paragraph of section 9 of the Federal Reserve Act, which authorizes the Board to permit applying State banks to become members of the Federal Reserve System 'subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto,' the Board, except as hereinafter stated, will prescribe the following conditions of membership for each State bank hereafter applying for admission to the Federal Reserve System, and, in addition, such other conditions as may be considered necessary or advisable in the particular case--

"1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.^{6/}

"2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

"The acquisition by a member State bank of the assets of another institution through merger, consolidation, or purchase may result in a change in the general character of its business or in the scope of its corporate powers within the meaning of condition numbered 1, and if at any time a bank subject to such condition anticipates making any such acquisition a detailed report setting forth all the facts in connection with the transaction shall be made promptly to the Federal Reserve Bank of the district in which such bank is located.

"^{6/} For many years, the Board prescribed, as standard conditions of membership, a condition which, in general, prohibited banks from engaging as a business in the sale of real estate loans to the public and certain conditions relating to the exercise of trust powers, including one which prohibited self-dealing in the investment of trust funds. The elimination of these conditions as standard conditions of membership does not reflect any change in the Board's position as to the undesirability of the practices formerly prohibited by such conditions; and attention is called to the fact that engaging as a business in the sale of real estate loans to the public or failing to conduct trust business in accordance with the applicable State laws and sound principles of trust administration may constitute unsafe or unsound practices and violate condition numbered 1.

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"If at any time, in the light of all the circumstances, the aggregate amount of a member State bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

"SECTION 8. ESTABLISHMENT OR MAINTENANCE OF BRANCHES

"(a) In general. - Every State bank which is or hereafter becomes a member of the Federal Reserve System is subject to the provisions of section 9 of the Federal Reserve Act relating to the establishment and maintenance of branches^{7/} in the United States or in a dependency or insular possession thereof or in a foreign country. Under the provisions of section 9, member State banks establishing and operating branches in the United States beyond the corporate limits of the city, town, or village in which the parent bank is situated must conform to the same terms, conditions, limitations and restrictions as are applicable to the establishment of branches by national banks under the provisions of section 5155 of the Revised Statutes of the United States relating to the establishment of branches in the United States, except that the approval of any such branches must be obtained from the Board rather than from the Comptroller of the Currency. The approval of the Board must likewise be obtained before any member State bank establishes any branch after July 15, 1952, within the corporate limits of the city, town, or village in which the parent bank is situated (except within the District of Columbia). Under the provisions of section 9, member State banks establishing and operating branches in a dependency or insular possession of the United States or in a foreign country must conform to the terms, conditions, limitations, and restrictions contained in section 25 of the Federal Reserve Act relating to the establishment by national banks of branches in such places.

"(b) Branches in the United States. -

"1. Before a member State bank establishes a branch (except within the District of Columbia), it must obtain the approval of the Board.

^{7/} Section 5155 of the Revised Statutes of the United States provides that: '(f) The term "branch" as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.'

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"2. Before any nonmember State bank having a branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the bank is situated is admitted to membership in the Federal Reserve System, it must obtain the approval of the Board for the retention of such branches.

"3. A member State bank located in a State which by statute law permits the maintenance of branches within county or greater limits may, with the approval of the Board, establish and operate, without regard to the capital requirements of section 5155 of the Revised Statutes, a seasonal agency in any resort community within the limits of the county in which the main office of such bank is located for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto, if no bank is located and doing business in the place where the proposed agency is to be located; and any permit issued for the establishment of such an agency shall be revoked upon the opening of a State or national bank in the community where the agency is located.

"4. Except as stated in the immediately preceding paragraph, in order for a member State bank to establish a branch beyond the corporate limits of the city, town, or village in which it is situated, the aggregate capital stock of the member State bank and its branches shall at no time be less than the aggregate minimum capital stock required by law for the establishment of an equal number of national banking associations situated in the various places where such member State bank and its branches are situated.^{8/}

"8/ The requirement of this paragraph is met if the aggregate capital stock of a member State bank having branches is not less than the total amount of capital stock which would be required for the establishment of one national bank in each of the places in which the head office and branches of the member State bank are located, irrespective of the number of offices which the bank may have in any such place. There are no additional capital requirements for additional branches within the city, town, or village in which the head office is located.

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"5. A member State bank may not establish a branch beyond the corporate limits of the city, town, or village in which it is situated unless such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition.

"6. Any member State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal Reserve System, regardless of the location of such branch or branches.

"7. The removal of a branch of a member State bank from one town to another town constitutes the establishment of a branch in such other town and, accordingly, requires the approval of the Board. The removal of a branch of a member State bank from one location in a town to another location in the same town will require the approval of the Board if the circumstances of the removal are such that the effect thereof is to constitute the establishment of a new branch as distinguished from the mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served.

"(c) Application for approval of branches in United States. -

Any member State bank desiring to establish a branch should submit a request for the approval by the Board of any such branch to the Federal Reserve Bank of the district in which the bank is located. Any nonmember State bank applying for membership and desiring to retain any branch established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the bank is situated should submit a similar request. Any such request should be accompanied by advice as to the scope of the functions and the character of the business which are or will be performed by the branch and detailed information regarding the policy followed or proposed to be followed with reference to supervision of the branch by the head office; and the bank may be required in any case to furnish additional information which will be helpful to the Board in determining whether to approve such request.

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"(d) Foreign branches. - Before a member State bank establishes a branch in a foreign country, or dependency or insular possession of the United States, it must have a capital and surplus of \$1,000,000 or more and obtain the approval of the Board.

"(e) Application for approval of foreign branches. - Any member State bank desiring to establish such a branch and any nonmember State bank applying for membership and desiring to retain any such branch established after February 25, 1927, should submit a request for the approval by the Board of any such branch to the Federal Reserve Bank of the district in which the bank is located. Any such request should be accompanied by advice as to the scope of the functions and the character of the business which are or will be performed by the branch and detailed information regarding the policy followed or proposed to be followed with reference to supervision of the branch by the head office; and the bank may be required in any case to furnish additional information which will be helpful to the Board in determining whether to approve such request.

"SECTION 9. PUBLICATION OF REPORTS OF MEMBER
BANKS AND THEIR AFFILIATES^{9/}

"(a) Reports of member banks. - Each report of condition made by a member State bank, which is required to

"^{9/} Under the provisions of section 9 of the Federal Reserve Act, reports of condition of member State banks which, under that section, must be made to the respective Federal Reserve Banks on call dates fixed by the Board of Governors of the Federal Reserve System 'shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe'.

"Section 9 also provides that the reports of affiliates of a member State bank which are required by that section to be furnished to the respective Federal Reserve Banks 'shall be published by the bank under the same conditions as govern its own condition reports'. The term 'affiliates', as used in this provision of section 9, under the express terms of that section, includes 'holding company affiliates as well as other affiliates', but a member State bank is not required to furnish to a Federal Reserve Bank the report of an affiliated member bank.

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"be made to the Federal Reserve Bank of its district as of call dates fixed by the Board of Governors of the Federal Reserve System, shall be published by such member bank within twenty days from the date the call therefor is issued.

"The report shall be printed in a newspaper published in the place where the bank is located or, if there be no newspaper published in the place where the bank is located, then in a newspaper published in the same or in an adjoining county and in general circulation in the place where the bank is located. The term 'newspaper', for the purpose of this regulation, means a publication with a general circulation published not less frequently than once a week, one of the primary functions of which is the dissemination of news of general interest.

"The copy of the report for the use of the printer for publication should be prepared on the form supplied or authorized for the purpose by the Federal Reserve Bank. The published information shall agree in every respect with that shown on the face of the condition report rendered to the Federal Reserve Bank, except that any item for which no amount is reported may be omitted in the published statement. All signatures shall be the same in the published statement as in the original report submitted to the Federal Reserve Bank, but the signatures may be typewritten or otherwise copied on the report for publication.

"A copy of the printed report shall be submitted to the Federal Reserve Bank attached to the certificate on the form supplied or authorized for the purpose by the Federal Reserve Bank.

"(b) Reports of affiliates.^{10/} - Each report of an

^{10/} Section 21 of the Federal Reserve Act, among other things, provides as follows: 'Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank.' Therefore, of course, in any case where the Board of Governors waives the filing of a report of an affiliate of a member State bank, no publication of a report of such affiliate is required.

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"affiliate of a member State bank, including a holding company affiliate, shall be published at the same time and in the same newspaper as the affiliated bank's own condition report submitted to the Federal Reserve Bank, unless an extension of time for submission of the report of the affiliate has been granted under authority of the Board of Governors of the Federal Reserve System. When such extension of time has been granted, the report of the affiliate must be submitted and published before the expiration of such extended period in the same newspaper as the condition report of the bank was published.

"The copy of the report for the use of the printer for publication should be prepared on Form F. R. 220a. The published information shall agree in every respect with that shown on the face of the report of the affiliate furnished to the Federal Reserve Bank by the affiliated member bank, except that any item appearing under the caption 'Financial relations with bank' against which the word 'none' appears on the report furnished to the Federal Reserve Bank may be omitted in the published statement of the affiliate, provided that if the word 'none' is shown against all of the items appearing under such caption in the report furnished to the Federal Reserve Bank the caption 'Financial relations with bank' shall appear in the published statement followed by the word 'none.' All signatures shall be the same in the published statement as in the original report submitted to the Federal Reserve Bank, but the signatures may be typewritten or otherwise copied on the report for publication.

"A copy of the printed report shall be submitted to the Federal Reserve Bank attached to the certificate on Form F. R. 220a.

"SECTION 10. VOLUNTARY WITHDRAWAL FROM FEDERAL RESERVE SYSTEM

"(a) General. - Any State bank desiring to withdraw from membership in a Federal Reserve Bank may do so after

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"six months' written notice has been filed with the Board;^{11/} and the Board, in its discretion, may waive such six months' notice in any individual case and may permit such bank to withdraw from membership in a Federal Reserve Bank, subject to such conditions as the Board may prescribe, prior to the expiration of six months from the date of the written notice of its intention to withdraw.

"(b) Notice of intention of withdrawal. Any State bank desiring to withdraw from membership in a Federal Reserve Bank should signify its intention to do so, with the reasons therefor, in a letter addressed to the Board and mailed to the Federal Reserve Bank of which such bank is a member. Any such bank desiring to withdraw from membership prior to the expiration of six months from the date of written notice of its intention to withdraw should so state in the letter signifying its intention to withdraw and should state the reason for its desire to withdraw prior to the expiration of six months.

"Every notice of intention of a bank to withdraw from membership in the Federal Reserve System and every application for the waiver of such notice should be accompanied by a certified copy of a resolution duly adopted by the board of directors of such bank authorizing the withdrawal of such bank from membership in the Federal Reserve System and authorizing a certain officer or certain officers of such bank to file such notice or application, to surrender for cancellation the Federal Reserve Bank stock held by such bank, to receive and receipt for any moneys or other property due to such bank from the Federal Reserve Bank and to do such other things as may be necessary to effect the withdrawal of such bank from membership in the Federal Reserve System.

"Notice of intention to withdraw or application for waiver of six months' notice of intention to withdraw by any bank which is in the hands of a conservator or other State official acting in a capacity similar to that of a conservator should be accompanied by advice from the conservator or other such State official that he joins in such notice or application.

"(c) Time and method of effecting actual withdrawal. - Upon the expiration of six months after notice of intention to withdraw or upon the waiving of such six months' notice

^{11/}Under specific provisions of section 9 of the Federal Reserve Act, however, no Federal Reserve Bank shall, except upon express authority of the Board, cancel within the same calendar year more than twenty-five per cent of its capital stock for the purpose of effecting voluntary withdrawals during that year. All applications for voluntary withdrawals are required by the law to be dealt with in the order in which they are filed with the Board.

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"by the Board, such bank may surrender its stock and its certificate of membership to the Federal Reserve Bank and request that same be canceled and that all amounts due to it from the Federal Reserve Bank be refunded.^{12/} Unless withdrawal is thus effected within eight months after notice of intention to withdraw is first given, or unless the bank requests and the Board grants an extension of time, such bank will be presumed to have abandoned its intention of withdrawing from membership and will not be permitted to withdraw without again giving six months' written notice or obtaining the waiver of such notice.

"(d) Withdrawal of notice. - Any bank which has given notice of its intention to withdraw from membership in a Federal Reserve Bank may withdraw such notice at any time before its stock has been canceled and upon doing so may remain a member of the Federal Reserve System. The notice rescinding the former notice should be accompanied by a certified copy of an appropriate resolution duly adopted by the board of directors of the bank.

^{12/} A bank's withdrawal from membership in the Federal Reserve System is effective on the date on which the Federal Reserve Bank stock held by it is duly canceled. Until such stock has been canceled, such bank remains a member of the Federal Reserve System, is entitled to all the privileges of membership, and is required to comply with all provisions of law and all regulations of the Board pertaining to member banks and with all conditions of membership applicable to it. Upon the cancellation of such stock, all rights and privileges of such bank as a member bank shall terminate.

"Upon the cancellation of such stock, and after due provision has been made for any indebtedness due or to become due to the Federal Reserve Bank, such bank shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per cent per month from the date of last dividend, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to the repayment of deposits and of any other balance due from the Federal Reserve Bank.

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"SECTION 11. BOARD FORMS

"All forms referred to in this regulation and all such forms as they may be amended from time to time shall be a part of this regulation."

In connection with the above action, unanimous approval also was given to a notice for publication in the Federal Register reading in part as follows:

"2. (a) The purpose of these amendments is to make this Part 208 conform to recent changes in the law relating to capital requirements for admission of State banks to membership in the Federal Reserve System and to the capital requirements for the establishment of branches by State member banks.

(b) The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with these amendments for the reasons and good cause found, as stated in § 262.2 (e) of the Board's Rules of Procedure (Part 262), and especially because such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

At this point Messrs. Riefler, Vest, Young, and Hackley withdrew from the meeting.

Before this meeting there had been sent to each member of the Board a memorandum from Mr. Carpenter dated August 26, 1952, to which was attached (1) a suggested letter to Mr. Heflin, Secretary of the Conference of Reserve Bank Presidents, listing topics which the Board would like to have discussed at the meeting of the Conference in September, and (2) a list of suggested topics for discussion with the Federal Advisory Council at the joint meeting to be held on October 7.

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The letter to the Secretary of the Presidents' Conference was approved unanimously in the following form:

"In connection with the forthcoming Presidents' Conference scheduled for the week beginning Monday, September 22, 1952, the Board would appreciate having the following topics included on the agenda:

1. A possible amendment to the Loss Sharing Agreement of the Federal Reserve Banks to include coverage of fire and allied risks was discussed at the last meeting of the Presidents' Conference. It is assumed that this matter will be given further consideration at the forthcoming Conference of Presidents in the light of the views expressed by the Boards of Directors of the various Federal Reserve Banks.

2. In reply to the Board's letter of May 29, 1952, the Presidents' Conference appointed a sub-committee to review the salary administration programs of the Federal Reserve Banks. It would be helpful to the Board if this item could be on the agenda for the next meeting for further discussion.

3. The Board would like to have a discussion with the Presidents of the recommendations contained in the Patman report. In this connection it would appreciate receiving any suggestions the Presidents may wish to make concerning a legislative program that the Board might wish to present for the next session of Congress.

4. The Board's letter of June 27, 1952, suggested that the System consider the size and scope of the activities which Federal Reserve Bank buildings should be planned to accommodate over the next 20 or 25 years and stated that it would like to have a full discussion of this subject with the Presidents at the time of their next Conference. The Board has received the views of individual Presidents regarding this matter and would appreciate having it included on the agenda for the September meeting.

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"5. Under date of July 2, the Board sent each President a copy of a letter addressed on that date to Mr. Sproul, President of the Federal Reserve Bank of New York, relating to the proposed program for the handling of the operations of the head offices of each Federal Reserve Bank by other Federal Reserve offices in the event of an emergency disrupting such operations. The Board would appreciate having a discussion at the next Presidents' Conference of the programs that have been developed at the individual Federal Reserve Banks for handling operations in the event of such emergency.

"It has also been suggested that it might be desirable to review at this meeting the part played by the System in the savings bond program and to arrange to have a progress report on that program made to the Presidents by Mr. Overby, Assistant Secretary of the Treasury.

"In connection with topic No. 5, there is attached a brief descriptive statement which you may wish to include when you distribute the agenda."

After some further discussion the following topics for discussion with the Federal Advisory Council were approved unanimously:

1. The Board would like to have the views of the Council on the prospective business and economic situation during the next three to six months. It would also appreciate receiving any suggestions the Council may have with respect to System credit policies during that period.

2. The Board would also like to have the views of the Council as to the best way to improve the understanding of Congress and the public as to the limited area in which the Federal Reserve Board and the Open Market Committee can operate to minimize inflation. This is important because of current discussion much of which is seriously misleading and may place the Board in a difficult light at a later time.

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3. The Board would appreciate having a discussion with the Council of the recommendations contained in the report of the Patman Subcommittee.

Reference was then made to a memorandum dated July 31, 1952 from Mr. Allen, Director of the Division of Personnel Administration, discussing the provision in Bill S.2968 recently signed by the President, for an amendment to the Civil Service Retirement Act, effective September 1, 1952, to increase the annuity payments to certain retired Civil Service employees for a temporary period. The memorandum, a copy of which had been sent to each member of the Board prior to this meeting, recommended that the Board take no action to prevent the incorporation into the Board Plan of the Federal Reserve Retirement System of provisions comparable to those provided in the amendment to the Civil Service Retirement Act. The memorandum also stated that the cost to the Board of funding this increased retirement allowance to June 30, 1954 would not exceed \$6,330 and that only 14 retired employees would be affected.

Governor Mills, after reviewing the matter, stated that the Retirement Committee of the Retirement System of the Federal Reserve Banks would meet in St. Louis on September 4 and 5, and would decide at that time whether the Board should be asked to approve increased

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benefits for Federal Reserve employees who had retired under the Bank Plan of the Retirement System. This, he said, would involve a large lump sum payment by the Reserve Banks to the Retirement System, even if the increased benefits were to apply for only a temporary period somewhat comparable to that provided in the Civil Service Retirement Act amendment, and a lump sum payment of perhaps \$2.4 million if the increased benefits were to be permanent.

There ensued a discussion of the question whether approval of the recommendation in Mr. Allen's memorandum with respect to an increase in benefits under the Board Plan would be a precedent calling for approval of the incorporation of increased retirement benefits in the Bank Plan. It was agreed that, in such a case, the Board could not refuse to approve increased benefits for a temporary period comparable to those provided in the new legislation but that it would not be obliged to approve benefits on a permanent basis.

During the discussion Governor Vardaman stated that during the period of his service on the Board his doubt as to the propriety of the Federal Reserve Retirement System had increased until it had reached the point that he did not know whether he was in sympathy with either the Bank Plan or the Board Plan. He said that for many reasons he would hate to see Federal Reserve employees placed

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under the Civil Service Retirement System but on the other hand he was inclined to think that the principle of having three separate and distinct retirement privileges within the System was basically unsound. Governor Vardaman also referred to the views that he had expressed previously with respect to the management of Federal Reserve Retirement System funds, and stated that he continued to be strongly opposed to the current procedure.

Thereupon, it was agreed unanimously that the Board should take no action to prevent the incorporation into the Board Plan of provisions comparable to those provided in the amendment to the Civil Service Retirement Act under Bill S.2968, effective September 1, 1952 for as long as the provisions of that amendment continue in effect.

At this point Messrs. Thurston, Sherman, and Kenyon withdrew from the meeting.

Unanimous approval was given to (1) placing Mr. Cherry, Legislative Counsel, in Room 2045, the room adjacent to Mr. Thurston's ante-room, and (2) transferring the office of Mr. Thomas, Economic Adviser to the Board, from the third floor to Room 2001, in the Board members' section of the second floor, with the ante-room for his secretary in Room 2015.

The following additional actions were taken by the Board:

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

Memorandum dated August 25, 1952, from Mr. Leonard, Director, Division of Bank Operations, recommending that the resignation of Geraldine A. Cunningham, Clerk-typist in that Division, be accepted to be effective, in accordance with her request, at the close of business September 5, 1952.

Approved unanimously.

Memorandum dated August 19, 1952, from Mr. Carpenter, Secretary of the Board, recommending that the Board authorize payment in the amount of \$3771.30 to Hart and Harkins, Washington, D. C., to cover the cost of reporting work in connection with the discussions held by the ad hoc subcommittee of the Federal Open Market Committee with securities dealers and others from June 9 to August 14, 1952, inclusive. The memorandum stated that no provision had been made in the 1952 budget of the Board members' offices to cover this expense.

Approved unanimously.

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

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"Reference is made to your letter of August 15, 1952, in which you advise that The Ohio Citizens Trust Company, Toledo, Ohio, had established an in-town branch at the corner of Monroe and Otis Streets, Toledo, Ohio, on July 30, 1952.

"The Board approves the establishment and operation of the branch, as required under the provisions of Public Law 543, which became effective on July 15, 1952.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch.

"Although the Board is not fully satisfied that this bank should expand branchwise without augmenting its capital structure, it approved the establishment of this branch because the State authorities had approved it sometime ago when approval by the Board was not required and the bank has gone forward with its program in reliance thereon."

Approved, Governor Evans
not voting.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of August 19, 1952, submitting the request of the Bank of Shawsville, Incorporated, Shawsville, Virginia, for approval under Section 24A of the Federal Reserve Act, of an investment in new bank premises in an amount exceeding its capital stock. It is understood that the investment will result in a carrying value of approximately \$31,500 in bank premises and about \$7,500 in furniture and fixtures.

"In view of your recommendation, the Board approves a total investment by the Bank of Shawsville, Incorporated, Shawsville, Virginia, in its bank premises and furniture and fixtures in an amount not to exceed \$40,000."

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 August 20, regarding the penalty of \$59.18 incurred by the Elgin National Bank, Elgin, Illinois, on a deficiency in its reserves for the period ended July 31, 1952.

"It is noted that the deficiency resulted from the failure of the subject bank to build up its reserve to offset a debit to its account in connection with the purchase of U. S. Treasury Bills; that this resulted from the absence on vacation of the employee who customarily computes the bank's reserve position; that the bank, during the first six months of 1952, carried average excess reserves from 10 to 12 per cent of required reserves; and that the bank has never been assessed a penalty for deficient reserves.

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

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve
Bank of Dallas, reading as follows:

"Page 13a of the report of examination of Lakewood State Bank of Dallas (a subsidiary of the Republic National Bank and Republic National Company) made as of March 22, 1952, by an examiner for the Federal Deposit Insurance Corporation, reveals that the bank had six loans aggregating \$26,177.34 secured by 700 shares of the capital stock of Republic National Bank.

"At the examination date the Lakewood State Bank had capital and surplus aggregating \$200,000. The above-mentioned loans exceeded 10 per cent of the capital stock and surplus of the bank and therefore were in excess of the limitations of section 23A of

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"the Federal Reserve Act. Consequently there was an apparent violation of paragraph 2 of the voting permit agreements executed in August 1950 by the holding company affiliates.

"Please notify the holding company affiliates of this apparent violation and advise us of steps taken to bring about correction if the violation still exists."

Approved unanimously.

Letter to Mr. M. Raymond Miller, Division of Audits, General Accounting Office, Washington, D. C., reading as follows:

"There are enclosed copies of reports setting forth the status of loans purchased by the Federal Reserve Banks in their capacity as fiscal agents of the Departments of the Army, Navy and Air Force under the Defense Production Act of 1950 and Executive Order 10161.

"These reports have been obtained from the Federal Reserve Banks at the request of the Departments of the Army, Navy and Air Force in connection with an audit which the General Accounting Office is making of the guaranteed loan program of these Departments as of June 30, 1952."

Approved unanimously.

Letter to Mr. N. C. Lenfestey, Vice President and Cashier, The National City Bank of New York, New York, New York, reading as follows:

"This refers to your letter of August 8, 1952, advising that, in order to render better service to your customers in Western Germany, your Bank proposes to establish a Representative Office in either Frankfurt or Duesseldorf, Federal Republic of Germany.

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"You indicate that your representative, his assistant, and a small secretarial staff will be stationed at the proposed office, but that no deposits will be accepted, loans made, or other banking business transacted at such office.

"Based on the information contained in your letter, it does not appear that the activities to be conducted at the proposed office could be regarded as the establishment of a branch in a foreign country or dependency or insular possession of the United States within the meaning of section 25 of the Federal Reserve Act. Accordingly, the establishment of such an office by your Bank does not require the approval of the Board of Governors. Nevertheless, the Board is interested in learning of your plans in this regard and would appreciate being informed as to the location and date any such office is established."

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



Secretary.