Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 3, 1952. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Boothe, Assistant Director, Division of Selective Credit Regulation
Mr. Hackley, Assistant General Counsel

Governor Vardaman referred to discussions at the meetings of the Board on August 8 and 12, 1952, concerning a proposed V-loan in the amount of $76,750,000 to be made to Reynolds Reduction Company, of Richmond, Virginia, a newly organized subsidiary of Reynolds Metals Company, by certain insurance companies and banks to finance the building and operation of additional aluminum facilities. The terms of the authorization to the Federal Reserve Bank of New York by General Services Administration, the guaranteeing agency, contemplated that until completion of the facilities the guaranteed percentage would be 100 per cent; that for a period of five years thereafter, during which period there would be in force a supply contract between General Services Administration and Reynolds Reduction Company under which the former would in effect be committed to take

over any excess aluminum production, the guaranteed percentage would be 70 per cent; and that at the end of the five-year period each financing institution could select any guaranteed percentage up to and including 100 per cent. At the meeting on August 12, the Board, having consulted with representatives of all of the guaranteeing agencies under the V-loan program, approved a letter to Mr. Larson, General Services Administrator, stating that it would have no objection to the proposed form of guarantee agreement, and also approved a letter to the Federal Reserve Bank of New York advising the Bank that it might take such steps as necessary in accordance with the terms of the authorization from General Services Administration.

Governor Vardaman stated that in view of subsequent developments in the matter, which he had discussed fully with the staff, he felt that the facts should be presented to the Board for its consideration.

Mr. Boothe said that there had been tremendous pressure on General Services Administration to increase the aluminum production capacity of the country in the interests of the national defense; that the first round of additional facilities was financed privately by the three major producers, including Reynolds Metals Company, which sold bonds to a group of insurance companies; that the second round of facilities expansion also was financed privately by two of the producers; but that Reynolds Metals was precluded from financing in such a manner because of its heavy debt

structure (including indebtedness to the Reconstruction Finance Corporation) and limited working capital. Accordingly, he said, General Services Administration explored at length various possibilities and considered the proposed V-loan the most favorable arrangement that could be obtained from the standpoint of the Government.

Mr. Boothe then referred to a letter dated August 28, 1952, from Mr. Phelan, Vice President of the Federal Reserve Bank of New York, in which Mr. Phelan stated that a conference with interested parties, including representatives of General Services Administration and the financing institutions (insurance companies and banks) was held at the Bank on August 15 to discuss the terms and conditions under which guarantee agreements relating to the proposed V-loan were authorized. At that conference, according to Mr. Phelan, General Services Administration accepted certain modifications proposed by the interested parties and expressed willingness to accept other modifications which required the consent of the holders of outstanding 4 per cent bonds of Reynolds Metals Company, due in 1962. On August 22 the Bank received copies of certain documents, including a mortgage and deed of trust ("indenture"), finance agreement, lease, and bond purchase agreement and loan agreement, which appeared to incorporate generally the modifications accepted by General Services Administration at the meeting on August 15.

Mr. Phelan's letter pointed out particularly that the indenture,

as revised, would provide for the payment of premiums in the event of voluntary redemption and prepayment of the bonds as a whole. It further stated that the lenders would agree to participation by the guaranteeing agency in any commitment fee payable after the execution and delivery of the guarantee agreements, but that it was proposed that the lenders also receive a fee to compensate them for holding funds available for the financing prior to the execution of the loan documents and the guarantee agreements and, with respect to the latter fee, the lenders did not believe that the guarantor should participate therein inasmuch as, during such period, the guarantor was not obliged to purchase the loan.

Mr. Boothe stated that the premium in event of prepayment, which might be regarded as a termination fee, would be 10 per cent if the bonds were paid off in whole during the years 1953-1956, with the premium being reduced at the rate of one per cent each year thereafter through 1962 and at the rate of one-half per cent per year from 1963 until maturity in 1967. While no premium would be involved in event of partial prepayment, the mortgage on the properties would remain outstanding.

The "advance" commitment fee, according to Mr. Boothe, would be at the rate of 1.7 per cent from July 1, 1952 to the date of execution and delivery of the guarantee agreements. It was presumed that the financing institutions would expect payment of this fee even if the agreements were never executed.

Mr. Boothe stated that Mr. Phelan felt that the proposed provisions would not react to the detriment of the V-loan program as a whole and that he thought the banks involved felt the same way. Mr. Boothe also remarked that, in accordance with the customary procedure, the New York Reserve Bank had made a credit investigation of the borrower and had made an unfavorable recommendation.

There followed a general discussion of the roles of the Board and the Federal Reserve Banks in the V-loan program during which Mr. Hackley stated that the Reserve Banks as fiscal agents have an obligation to protect the interests of the Government, while the Board has the obligation to prescribe rates and fees. He recalled that in its letter to the Reserve Banks of February 8, 1951, the Board, having consulted with the guaranteeing agencies, prescribed a general rule that no termination fee should be charged in connection with any V-loan made primarily for working capital purposes, this being the same rule prescribed during the World War II V-loan program. During the interagency consultations, Mr. Hackley said, General Services Administration recommended that a distinction be made between working capital and long-term loans and as a result the Board took no position with respect to termination fees in connection with long-term loans for fixed capital purposes. Therefore, the current proposal for a prepayment fee was not contrary to any position taken by the Board, the matter simply having not been covered previously. If the Board should want to take any

position, it would have to consult with the guaranteeing agencies and then issue a general instruction. In response to a question, Mr. Hackley said that if the Board should feel that the charging of a high premium for prepayment of the bonds in this case would be contrary to the best interests of the Government, it might have an obligation to make some recommendation to the guaranteeing agency.

In discussion it was pointed out that if rates of interest should decline and the borrower wished to refinance without a guarantee, the high call price of the bonds would militate against such refinancing. Similarly, if the Government should decide at a later date that a further expansion of aluminum facilities was required, it would not be possible to consolidate this and any subsequent financing except upon payment of the stated premium. It was brought out, on the other hand, that in the opinion of the New York Bank, the company, in view of its financial condition, would be in no position to refinance this indebtedness within the period that a premium was payable.

With respect to commitment fees, Mr. Boothe pointed out that the Board had prescribed a maximum commitment fee of 1/2 of one per cent, such fee to take effect from the time the guarantee agreement was executed, and that it was provided that the guaranteeing agency should share in that fee

according to the guaranteed percentage of the loan. He said this raised a question as to the propriety of any commitment fee prior to execution of the agreement and particularly as to the proposed rate of 1.7 per cent; also, if such a fee were to be permitted, whether the guaranteeing agency should share in it.

There followed an extended discussion of the facts of the case and the possible actions which might be taken by the Board. During this discussion it was stated that, in the absence of some agency such as a Defense Plant Corporation, there was no way by which the Government could build facilities and lease them to a producer as was done in World War II.

Various suggestions were made as to the course which might be followed by the Board, including a letter expressing its views to the General Services Administration, a letter to the Federal Reserve Bank of New York, or the calling of a meeting of the guaranteeing agencies to consult as to the policy to be followed with respect to termination fees on long-term loans for fixed capital purposes. At the conclusion of the discussion, the staff was requested to prepare a draft of letter to the General Services Administration incorporating suggestions made at this meeting and to present the draft for consideration by the Board this afternoon.

Messrs. Noyes, Boothe, and Hackley withdrew from the meeting at this point.

Governor Szymczak reported that he had received a telephone call yesterday from Mr. Bryan, President of the Federal Reserve Bank of Atlanta, who inquired whether the Board would be willing to supply the Bank with 2,500 paper-bound copies of the booklet, "The Federal Reserve System: Its Purposes and Functions", for distribution at the time of the official opening of the new Jacksonville Branch building on October 17.

It was agreed unanimously that the Reserve Bank should be furnished the requested number of copies of the booklet.

In a further discussion concerning the opening of the new building at Jacksonville, it was understood that Chairman Martin and Governors Evans, Vardaman, and Robertson expected to attend, and it was agreed unanimously that Messrs. Thurston, Assistant to the Board, Leonard, Director, Division of Bank Operations, and Sloan, Director, Division of Examinations, also should be authorized to attend.

At this point Messrs. Sloan, Director, Hostrup, Assistant Director, and Thompson, Federal Reserve Examiner, Division of Examinations, and Chase, Assistant Solicitor, joined the meeting.

Governor Robertson presented a statement concerning a proposal for a merger of the First National Bank of Arizona, Phoenix, Arizona, and The Bank of Arizona, Prescott, Arizona, a nonmember bank. His statement followed the lines of a memorandum on the subject which he addressed to the Board under date of August 29, 1952. The memorandum, which was circulated

to the other members of the Board following this meeting, read as follows:

"President Hugh Gruwell of the Phoenix bank, and Sherman Hazeltine, President of the Prescott bank, called on me today with respect to the above matter and requested that they be advised as soon as possible, and preferably the first of next week, as to whether the Board would issue a voting permit to Transamerica Corporation for the purpose of authorizing it to vote stock of the First National Bank of Arizona in favor of the proposed merger. The Transamerica Corporation owns, as you know, approximately 80% of the stock of the First National of Arizona. The Bank of Arizona, a nonmember state bank, is owned exclusively by the Hazeltine family (some of the owners are related by marriage rather than blood).

"Under the proposal, the two banks would be merged outright, with stock of the First National Bank of Arizona being issued to the present shareholders of The Bank of Arizona, to be held by them in lieu of their present state bank stock. It is understood that those shareholders would be in a position to dispose of their shares of the merged institution to anyone whomsoever, with no strings attached. In other words, the ownership of Transamerica Corporation in the stock of the merged institution will be slightly less percentagewise than its ownership of shares of the First National Bank of Arizona at the present time.

"The First National Bank has total resources of $129,000,000. The Bank of Arizona has resources of $19,000,000. The capital structures will, when consolidated, aggregate $9,915,000. However, after the merger, the bank will issue 55,000 shares of new stock (1 to 5) at $25 per share, producing $1,375,000 of new capital funds.

"The Bank of Arizona has four branches, and if the merger is consummated, the First National Bank of Arizona will be granted branches in those four places, plus Prescott, wherein the head office of The Bank of Arizona is now located. For your information, the only other bank in Prescott is a branch of the Valley National. In Flagstaff there is another bank, recently organized, which is financed by funds held by persons alleged to be closely connected with the Valley National. In Williams, Clarkdale and Cottonwood, The Bank of Arizona operates the only banking facility.

"The Board must express its willingness or unwillingness to issue a voting permit for the purpose aforementioned. In reaching its decision it should bear in mind that although this represents

"an expansion on the part of the First National Bank of Arizona, it is allegedly not a part of any imperialistic or expansionistic plan of that bank. Mr. Gruwell stated that one of the principal purposes of the merger is to permit the First National Bank of Arizona to acquire the services of Mr. Sherman Hazeltine, President of The Bank of Arizona, who will become Executive Vice President of the First National Bank of Arizona, with the understanding that he will succeed Mr. Gruwell some time during the next four years. Secondly, Mr. Hazeltine stated that if the merger does not take place, The Bank of Arizona will liquidate because the shareholders (all members of one family) are not in a position to raise additional capital, and it is asserted that the bank is not adequately capitalized at this time. As a matter of fact, Mr. Hazeltine stated that the Federal Deposit Insurance Corporation has refused to permit this bank to move a banking facility from one place to another because of its undercapitalized position.

"The Board should also bear in mind that in the event the Clayton Act proceeding results in the Board's decision being upheld by the Courts, the Transamerica Corporation will be obliged to dispose of its holdings of the stock of the First National Bank of Arizona. Whether at that time the bank is a $129,000,000 institution or $150,000,000 would seem to be of small consequence. It should be noted that in Arizona, the competition of this bank is provided by the Valley National Bank of Arizona, which is larger in every respect, volumewise, capitalwise, branchwise, etc., and which, in addition, controls the third largest bank in the state (volumewise and branchwise), The Bank of Douglas, through the acquisition of its stock by the Employees' Pension Fund, the trustees of which are the principal officers of the Valley National Bank.

"It is asserted that the Office of the Comptroller of the Currency is willing to approve this merger and authorize the establishment of additional branches for the First National Bank of Arizona. Consequently, if the Board of Governors is confident that its decision in the Transamerica case will stand up in Court, the Board should not stand in the way of the merger by refusing to issue such a voting permit to Transamerica Corporation. On the other hand, if the determination of the Board is to be based on the size and dominance of the Transamerica system of banks, without regard to the Clayton Act proceeding, there would be a real doubt that the Board should permit expansion even in this manner.

"I have been advised that the Comptroller's Office informed Mr. Gruwell and Mr. Hazeltine that it would not act upon the proposed transaction until after the Board had issued or refused to issue a voting permit in order to enable the transaction to be consummated, but intimated that if such permit were granted, that office would approve the merger and authorize the establishment of branches.

"Mr. Saunders, Superintendent of Banks in Arizona, advised Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, that he had been expecting this merger for the last three years - ever since Mr. Hazeltine went on the Board of Directors of the First National of Arizona in Phoenix - that the result of this merger would be, for all practical purposes, the establishment of a two-bank system in Arizona, which he regretted but which he thought was probably inevitable, and that he had no personal objection.

"There is no certainty in my opinion as to the outcome of the Clayton Act proceedings against Transamerica Corporation, and since that case was brought as a means of preventing further expansion by Transamerica Corporation in the banking field, our approval now of this proposed expansion (irrespective of the factors which would warrant favorable action if Transamerica were out of the picture and we were dealing solely with Arizona banking) would place the Board in an inconsistent position and might indicate to the public that the present Board is not in sympathy with the so-called Transamerica case. Consequently, and notwithstanding the favorable factors present, namely, strengthened management, strengthened capital, and the possibility of building up a bank adequate to meet the competition of the much larger and expansionistic Valley National Bank of Phoenix, I would recommend that the Board authorize me to advise Mr. Gruwell that it would not be inclined to issue a voting permit for the purpose mentioned, but that it appreciated fully the factors which in ordinary circumstances might call for a favorable decision, and as a result would be glad to reconsider the position after the termination of the Clayton Act proceedings against Transamerica Corporation. It is my feeling that such a position taken by the Board at this time would merely serve to postpone the consummation of this merger rather than to definitely eliminate it, and consequently would not work any real hardship on the First National Bank or The Bank of Arizona, or

"seriously interfere, except from the point of view of time, with the establishment of a more adequate competitive position for the First National Bank in the State of Arizona."

In his comments, Governor Robertson said that although The Bank of Arizona was regarded by the Federal Deposit Insurance Corporation as being undercapitalized, it was a conservatively operated institution, its capital funds in relationship to its risk assets were not far out of line, and it had had a fairly good earnings record. As to the possible effect of the Board's granting a voting permit to Transamerica Corporation to vote its stock of the First National Bank of Arizona in favor of the proposed merger, Governor Robertson expressed the view that such action would have no legal effect on the Clayton Act proceeding but that, for the reasons stated in the above memorandum, he felt the Board should take the course recommended therein.

Governor Vardaman noted that the Clayton Act proceeding might not be decided finally by the courts for some time and expressed the view that the Board should be careful not to take any action which would injure the parties at interest in a proposed transaction merely because that litigation was pending. It was his understanding that the proposed merger was considered by all parties as advantageous per se and that, if the merger were approved and the Board's position in the Clayton Act proceeding should be upheld by the courts, the only difference would be that Transamerica Corporation would be forced to divest itself of its interest in an institution

having resources of approximately $150 million rather than one having resources of about $129 million.

In reply to a question by Governor Vardaman, Governor Robertson stated that, if it were not for the pending litigation and the fact that Transamerica Corporation was involved, he would favor the proposed merger; he would not, however, favor a merger of The Bank of Arizona with the Valley National Bank of Phoenix because such a merger would result in an institution even more dominant in banking in the State of Arizona than is the latter bank at present.

Governor Vardaman then stated that he could not support Governor Robertson's recommendation because, in the light of the other circumstances involved and possible injury to innocent parties, he did not feel that the fact that the Clayton Act proceeding against Transamerica Corporation was pending constituted a sufficient reason for refusing the necessary voting permit. He said he had some doubts about the adequacy of the Arizona banking situation but did not know how it could be changed in view of Arizona law, and the fact that the people of Arizona seemed satisfied.

Governor Robertson then asked that members of the staff who had studied the matter comment on it.

Mr. Vest said that, so far as the legal points involved were concerned, he agreed with Governor Robertson's analysis. He also thought that it would be preferable to postpone the merger if that could be done without injury to the competitive situation in Arizona.

Mr. Chase stated that he concurred in Governor Robertson's recommendation because he felt it was possible that the granting of a voting permit to Transamerica Corporation for the purpose of effecting the merger might have some bearing on the current Clayton Act proceeding. He said that the Board had been trying for twenty years to contain the Corporation's expansion, that the institution of the Clayton Act proceeding was simply the latest of a chain of moves in that direction, that the Board was now asking the courts to confirm its opinion that a dangerous situation tending toward monopoly was developing, and that favorable action on an application for a voting permit in this instance might be regarded as inconsistent. Mr. Chase felt certain that, although technically action on this matter would have no place in the current litigation, counsel for respondent would file a brief advising the court of any favorable action which might be taken, and it was impossible to know what, if any, weight would be given that by the court.

Governor Vardaman disagreed with Mr. Chase's contention, stating that in his opinion there was no procedure whereby such action by the Board could be taken into account by the courts, and that the decision in the Clayton Act proceeding against Transamerica Corporation must be made solely on the record as it now stands before the court.

Mr. Sloan said that as a practical matter, considering the current banking situation in Arizona, the merger would seem to be in the public

interest and that in his opinion the Board's decision should rest, therefore, on its conclusion as to the possible effect of favorable action by the Board on the pending litigation under the Clayton Act. He agreed with Governor Robertson that, in the circumstances, it would be desirable if the merger could be postponed.

In answer to questions by Governor Evans, Mr. Sloan emphasized that his statement that the merger would be in the public interest was based on the competitive situation now prevailing in Arizona where one institution overshadows all others; in the particular case under consideration, he felt that the merger would tend to assure the continuance of strong interbank competition within the State.

Governor Evans said that while he agreed with Governor Robertson's recommendation, he disagreed strongly with Mr. Sloan's reasoning and he suggested that there be a full discussion by the Board at some time in the future to ascertain whether the Board, as presently constituted, favored the preservation of the current banking structure or whether it advocated extension of the practice of multi-unit banking.

Thereupon, the recommendation contained in Governor Robertson's memorandum was approved, Governor Vardaman voting "no", it being understood that Governor Robertson would advise Mr. Gruwell accordingly.

At this point Messrs. Vest, Chase, and Thompson withdrew from the meeting.

Governor Robertson referred to a memorandum dated August 25, 1952, which he had placed in the files regarding a conversation in his office that day with Mr. Bayard F. Pope, Chairman of the Board of Marine Midland Corporation, regarding the contents of a letter dated August 19 which was written to the corporation by the Federal Reserve Bank of New York in accordance with the Board's letter of August 18 concerning the proposed absorption of the Bank of Hamburgh, Hamburg, New York, by The Marine Trust Company of Western New York, Buffalo, New York, a subsidiary of Marine Midland Corporation.

Governor Robertson said that in the absence of objection by the other members of the Board, he felt it would be desirable to send a copy of the memorandum,which dealt with the Board's attitude toward possible further expansion of Marine Midland Corporation,to the New York Reserve Bank for use in connection with the survey of Marine Midland Corporation being made by that Bank at the request of the Board.

Governor Vardaman said that he questioned whether the Board should establish a precedent of sending copies of memoranda such as this outside the Board unless it was necessary for the Reserve Bank to have the benefit of the memorandum in carrying out its survey.

Governor Robertson said that he thought the memorandum would be very useful to the Bank for that purpose.

Thereupon, it was agreed unanimously that there would be no objection to transmitting a copy of the memorandum to the New York Bank.

At this point Messrs. Sloan and Hostrup withdrew from the meeting.

Governor Szymczak reported receipt of a letter dated August 28, 1952, from Mr. Sproul, President of the Federal Reserve Bank of New York, stating that the Bank's directors had authorized him to make a trip to Europe of approximately six weeks' duration, beginning about October 1, for the purpose of renewing contacts with officials of European central banks and discussing with them informally matters of current interest. Governor Szymczak said that Mr. Sproul had apprised Chairman Martin of his plans before the latter's departure for Mexico City.

During a discussion of this matter, Governor Vardaman suggested that the Board consider whether it would be desirable to have some other member of the Federal Open Market Committee stationed in New York during Mr. Sproul's absence.

Thereupon, it was agreed unanimously that Mr. Sproul should be advised that the Board would have no objection to his contemplated trip, with the understanding that Governor Vardaman's suggestion would be discussed further at a meeting of the Board following Chairman Martin's return to his office.

There was presented a draft of letter for the signature of the Chairman to Mr. L. K. Elmore, Commissioner, Banking Department, State of Connecticut, Hartford, Connecticut, reading as follows:

"This refers to your letter of June 2, 1952, addressed to Governor Powell, pointing out that a Connecticut State bank which becomes a member of the Federal Reserve System must forego the right which it has under State law to invest in bank stocks under certain limitations, in view of the fact that State member banks are prohibited by section 9 of the Federal Reserve Act and section 5136 of the United States Revised Statutes from purchasing corporate stocks. In his acknowledgment of June 5, Governor Powell stated that your letter would be brought to the Board's attention.

"The Board has carefully considered the views expressed in your letter and has asked me to advise you of its tentative views. We appreciate your interest in the Federal Reserve System and your obvious desire to eliminate any obstacles to membership. However, as you know, the Banking Act of 1933 amended section 5136 of the Revised Statutes to prohibit national banks from purchasing corporate stocks with certain limited exceptions and, by an amendment to section 9 of the Federal Reserve Act, placed State member banks on the same basis as national banks in this respect. The reasons for these amendments to the law would seem to be as applicable to purchases of bank stocks as they are to purchases of other types of corporate stocks; and, in this connection, you will recall that one of the general purposes of the Banking Act of 1933 was to regulate affiliations between banks.

"In these circumstances, and notwithstanding the desirability of having as many banks as possible join in carrying out the purposes for which the Federal Reserve System was created, the Board would be reluctant to favor an amendment to the law which would permit member banks in any State to invest in bank stocks."

The letter had been redrafted following discussion at the meeting of the Board on August 18, 1952, and was placed in circulation among the members of the Board in the revised form. Governor Vardaman had requested further consideration of the matter at a meeting of the Board.

Governor Vardaman stated that, although he agreed in principle with the position taken in the last paragraph of the letter, against an amendment to the law which would permit member banks in any State, regardless of State law, to invest in bank stocks, he felt that the Board should not take a position on any such proposal to introduce legislation, but should wait until a bill was actually introduced and the Board's views were requested, as they certainly would be, by the cognizant Congressional committee in the usual way.

In a discussion of this point, other members of the Board brought out that Mr. Elmore had requested an expression of the Board's views and that it would be inadvisable, by failing to state its views, to mislead Mr. Elmore as to what the Board's attitude probably would be if legislation on the subject were introduced.

It was also mentioned that the question of Board policy with respect to the retention by State banks of their holdings of corporate stocks upon joining the System was to be discussed at a forthcoming meeting of the Board.

Thereupon, the letter to Mr. Elmore was approved in the form shown above, Governor Vardaman voting "no" for the reason indicated.

The meeting then recessed and reconvened at 2:25 p.m. with Messrs. Szymczak, Evans, Vardaman, Mills, Robertson, Sherman, Kenyon, Vest, Noyes, Boothe, and Hackley present.

In accordance with the understanding at the morning session, there

was presented a draft of letter to Mr. Larson, General Services Administrator, relating to the proposed V-loan to Reynolds Reduction Company.

Following a reading of the draft, there was a further extended discussion of the desirability of sending the letter and, if so, how it should be phrased. Concerning the question whether the Board should place itself on record by means of a letter to Mr. Larson, it was the consensus that the Board would be remiss in not calling to the attention of the guaranteeing agency any questions relating to rates and fees which would seem to affect the interests of the Government since the guaranteeing agency could properly look to the Board for expert knowledge in this phase of the transaction.

It was thereupon agreed that the letter to Mr. Larson should be redrafted to take into account various suggestions made at this meeting, with the understanding that if Mr. Larson indicated a desire to meet with the Board for exploration of the questions involved, Mr. Phelan, Vice President of the Federal Reserve Bank of New York, would be invited to attend the meeting.

Secretary's Note: The letter to Mr. Larson was sent under date of September 4, 1952, in the following form:

"In connection with the proposed V-loan guarantee by General Services Administration of a loan to the Reynolds Reduction Company, Richmond, Virginia, for the construction of certain aluminum facilities, the Board has been advised by the Federal Reserve Bank of New York that the proposed

"arrangement contemplates payment by the borrower of a certain fee or premium in the event of payment of the obligations before maturity.

"The Board has heretofore taken the position, after consultation with the guaranteeing agencies as required by Executive Order 10161, that no termination fee or premium or fee on account of prepayment may be charged a borrower by a financing institution in connection with any V-loan made primarily for working capital purposes. The arrangement proposed in the present case raises a question, not heretofore considered by the Board, as to what position should be taken with respect to prepayment fees charged in connection with long-term V-loans made for the purpose of financing facilities expansion.

"The Board also understands that in the present case a commitment fee is being charged the borrower by the financing institutions in advance of the execution of the loan documents and the guarantee agreement; and this fact gives rise to a question, also not previously considered by the Board, as to whether advance commitment fees of this kind should be permitted and, if so, whether maximum limits should be prescribed.

"As indicated in our letter to you of August 12, 1952, the Board is not attempting to express an opinion with respect to the merits, the soundness, or the desirability of this loan or of its guarantee by General Services Administration. However, as you know, the Board has a particular responsibility in this field as to the fees and charges which may be made and the Board is required by Executive Order 10161 to consult with the guaranteeing agencies regarding any action with respect to rates and fees.

"On the basis of the information available to it, the Board feels that there is a serious question whether the inclusion of such provisions with respect to prepayment fees and the payment of advance commitment fees are consistent with the best interests of the Government. It believes, therefore, that, if the presently contemplated V-loan arrangement is to include such features, the general questions above mentioned should be discussed with representatives of the guaranteeing agencies before determining what

"position should be taken with respect to such questions. However, before consulting the other guaranteeing agencies, the Board will be very glad to discuss the matter with you and will be prepared to meet with you for that purpose at any time which you may find convenient."

Messrs. Vest, Boothe, and Hackley withdrew from the room at this point.

Reference was made to a memorandum from Mr. Noyes dated September 2, 1952, to which was attached a letter dated August 5 from Mr. Aubrey M. Costa, President of the Mortgage Bankers Association of America, inviting Mr. Noyes to appear on a panel on October 2 in connection with the annual convention of the Association, to be held in Chicago. In his memorandum Mr. Noyes stated that he had discussed the invitation with Governor Evans and with Mr. Young, Director of the Division of Research and Statistics, and that they felt he should accept in view of the desirability of maintaining friendly relations with the Association whether or not Regulation X, Real Estate Credit, was in force. The memorandum stated that, among other things, the staff was anxious to obtain the cooperation of the Association in the collection and compilation of data on mortgage finance.

Mr. Noyes said that he had no particular desire to participate in the panel but that the Mortgage Bankers Association had been very cooperative in connection with Regulation X and its representatives had participated in many conferences at the Board's offices concerning Regulation X problems. It was his understanding that the panel would consist of representatives of

several of the Government agencies having an interest in the mortgage lending field, plus an insurance company representative, a private real estate consultant, and possibly others.

Governor Vardaman said there was some question in his mind whether representatives of the Board should participate in such programs at this time since he was not entirely satisfied concerning the nature of the publicity that might result and he would not want the Board or members of the staff placed in an embarrassing position. Governor Vardaman recalled that he had always taken the position during his tenure on the Board that no member of the Board or its staff should appear on any convention programs unless they were in a position to make a distinct contribution and what they had to say would carry some weight. He also questioned somewhat the desirability of Mr. Noyes' appearance on a panel with representatives of other Government agencies since he felt that the approach of the Board to real estate credit problems was different from that of the other agencies. He mentioned that the presence of several persons on the panel would mean that the Board's representative probably would be heard only briefly and in response to specific questions.

Following some discussion of the nature of the panel and the types of questions which might be asked, Governor Robertson said that, while he agreed with Governor Vardaman's comment that the Board's approach to the real estate credit field was different from some other Government agencies,

he failed to see how the public could be made aware of that unless representatives of the Board appeared to explain its position. He said that, assuming the Board's confidence in its representative to do a good job, he thought it desirable to have the Board's position explained in an appropriate manner.

Governor Evans said that he deemed it a great mistake for the System not to send its representatives out to a greater extent to contact the public. He recognized that this involved a calculated risk but felt that enough would be gained by talking to the public and presenting the Board's point of view to justify taking this risk.

Thereupon, Mr. Noyes was authorized by unanimous vote to accept the invitation extended by the Mortgage Bankers Association of America. In this connection, unanimous approval was given to a request submitted by Mr. Noyes covering authority to travel to Chicago on October 1 and 2 for that purpose.

Mr. Noyes then withdrew from the meeting.

Upon motion by Governor Robertson, unanimous approval was given to letters to the Presidents of all Federal Reserve Banks reading as follows:

"Following receipt of the replies to the Board's telegram of August 8 regarding a supplemental order for the printing of Federal Reserve notes as part of the emergency program, the Board placed an order for 45,000,000 sheets to be printed during the remainder of the fiscal year. This is in addition to the regular order for 60,880,000 sheets placed last spring.

"The goal of the program so far as Federal Reserve notes are concerned is a two-years' supply of notes for each Bank and denomination by June 30, 1953. Allocations of the supplemental order by Bank and denomination will be deferred for some time in order that they may, when made, more closely approximate this goal.

"Printings of notes under the regular and supplemental orders are expected to commence at a substantially accelerated rate in November. We have been advised that approximately 20 per cent of the supplemental order will be printed during 1952 and the remainder in 1953. It is suggested that this distribution be taken into consideration in preparing your budget for 1953."

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"As you have been advised previously, the emergency program contemplates a build-up of larger reserve supplies of currency. The goal is a two-years' supply of denominations of $5 and upwards, and a one-year's supply of $1 bills.

"A supplemental order for 45,000,000 sheets of Federal Reserve notes has been placed. It is estimated that with the regular order this will result in a two-years' supply of currency in denominations of $5 and more by June 30, 1953.

"The Treasury's program for printing $1 bills contemplates a sizeable increase in reserve supplies during the current fiscal year, although not sufficient to build up total holdings by the Treasury and Reserve Banks of $1 bills to a year's supply by June 30, 1953. Accordingly, the Treasury is considering the possibility of requesting the Federal Reserve Banks to increase for a time the emergency supplies of unfit $1 bills.

"The preparedness program contemplates that the storage of currency at Washington will be held to a minimum. This will create a serious storage problem for the Federal Reserve Banks and branches. Replies to our letter of July 3 indicate that throughout the System provision can be made for storing substantially increased reserve supplies of currency through fuller utilization of present vault space, adaptation of other security areas, use of book vaults, and construction of strong rooms suitable for the storage of coin, $1 bills, or other items now held in the vaults which do not require the maximum security provided by the regular vaults.

"The Board believes that the Reserve Banks should promptly undertake plans to participate fully in this storage program. Accordingly, it will be appreciated if you will advise the Board the extent to which your Bank is in a position to participate, and specifically as to:

1. Your plans for storing the additional currency, including especially any steps to increase the storage facilities at the Head Office and each branch.
2. The amount of space which will be available for storing additional currency, showing separately any space considered suitable for storage of $1 bills but not regarded as suitable for bills of higher denominations.
   a. Cubic feet
   b. Capacity
      (1) Number of packages of new currency, or
      (2) Number of pieces of unfit currency
3. When the space in paragraph numbered 2 above will be available.
4. Estimated cost of new construction, alterations or equipment.
5. Estimated additional protection expenses, if any, on an annual basis."

There was presented a draft of letter to the Board of Directors of the American Trust Company, San Francisco, California, reading as follows:

"Pursuant to your request submitted to the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment and operation of a branch at Menlo Park, California, by American Trust Company, San Francisco, provided the branch is established within six months from July 23, 1952, as required by the State Banking Department.

"In applying for approval of the establishment of this branch, reference was made to the question of adequacy of the capital funds of the trust company and to its continuing policy to strengthen its capital position through the retention of earnings and the sale of stock when feasible.

"While it is realized that substantial additions have been made to the capital structure in recent years, in view of the growth in the volume of business of the trust company the Board again urges that steps be taken as rapidly as possible to provide additional capital funds."

In this connection, there was also presented a draft of letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of August 8, 1952, regarding the request of American Trust Company, San Francisco, California, for permission to establish a branch at Menlo Park, California.

"The Board has approved the establishment of the branch as provided in the enclosed letter which you are requested to forward to the Board of Directors of the bank. A copy is enclosed for your files.

"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.

"In March 1950, the Board expressed the view that further expansion should not be undertaken by the American Trust Company in the absence of special circumstances unless its capital position was substantially improved. Since that time its capital has been increased, and in part through the sale of new stock, but due to the expanding volume of business its relative capital position has not been substantially improved. It is noted, however, that a program for further capital increases is now under consideration, but that a decision has not been reached as to whether additional capital should be provided through sale of common stock or some type of preferred issue. While the Board is very much in favor of augmenting the capital structure of the trust company it is not presently disposed to look with favor upon the issuance of preferred stock for this purpose.

"In approving the establishment of the proposed branch the Board has been impressed with the view that the purpose is not that of expansion but rather to provide better service for customers of the trust company and to relieve congestion at two of its nearby existing branches."

The drafts had been placed in circulation among the members of the Board prior to consideration at a meeting and Governor Vardaman had questioned whether the statement in the last paragraph of the letter to Mr. Slade concerning the purpose of establishing the branch was warranted.

In connection with the question raised by Governor Vardaman, Governor Robertson stated that prior to 1936 a branch was operated in Menlo Park by American Trust Company, but at that time the community was extremely small and apparently did not support the branch, with the result that it was discontinued. He pointed out that the population of the area had increased rapidly since then, and that the trade area of Menlo Park was now estimated at 56,000, the city and surrounding territory being primarily residential with no heavy industries established or contemplated. Governor Robertson said that in applying for permission to reestablish a branch in Menlo Park, American Trust Company stressed that the operation of the branch would relieve congestion at two branches in nearby communities which have substantial volumes of business originating in the Menlo Park area, and that the San Francisco Reserve Bank was favorably impressed by the contention of the trust company that the principal purpose of opening the branch was to relieve that congestion and afford better service rather than to expand its activities. He went on to say that branches in Menlo Park were established by the Bank of America National Trust and

Savings Association, in 1937, and by the First National Bank of San Mateo County, Redwood City, California, in 1951, and that these branches were operating successfully.

Governor Robertson then referred to the fact that in March 1950, when the Board approved an application by American Trust Company to establish a branch in Woodland, California, it expressed the view that further expansion should not be undertaken by the trust company in the absence of special circumstances unless its capital position was substantially improved. While the bank's capital accounts were increased by about 29 per cent during the period from the beginning of 1950 to June 30, 1952, Governor Robertson said, loans and discounts increased by 35 per cent so that there was still a need for introduction of additional capital. For this reason the proposed letter to American Trust Company urged that steps be taken as rapidly as possible to provide additional capital funds while the proposed letter to the Reserve Bank was so worded as to indicate that the approval of the requested branch in Menlo Park reflected a recognition of the special circumstances involved rather than a deviation from the position taken in the March 1950 letter.

Governor Robertson concluded that in all the circumstances, including the absence of any serious objections on the part of the two banks now operating branches in Menlo Park, he would favor approval of the application.

In the course of discussion, Governor Evans stated that, although he considered the move by American Trust Company as expansion in the broad

sense of the term, he recognized that it did not represent an expansion in the exact meaning of the Board's letter of March 1950. He said that he would be opposed to such a proposal nine times out of ten, especially in the State of California, where he felt that conditions were approaching the point that the smaller banks would have little chance to continue successfully. He remarked that the adoption of a restrictive policy against branch banking by the Board would eliminate this type of problem.

Governor Mills said that, although he had no strong views on the matter, he was somewhat fearful that with branches of two large banks operating in a community the size of Menlo Park, the branch of the First National Bank of San Mateo County might be squeezed out since there would seem to be a question whether the town would be able to support three institutions.

With reference to Governor Mills' comments, Governor Robertson stated that in a nonindustrial area such as Menlo Park the smaller institution would not be so badly handicapped by its lower lending limits and the quality of service rendered would be a more important competitive factor. He also mentioned that the State banking authorities had approved the application of American Trust Company and that it might be well to give some consideration to the fact that the applicant institution was a State bank whereas the two banks already operating branches in the community were national banks.

After further discussion, the letters to American Trust Company and the Federal Reserve Bank of San Francisco were approved unanimously in the form in which they were submitted.

The following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 2, 1952, were approved unanimously.

Letter to the Board of Directors, Camden Trust Company, Camden, New Jersey, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment and operation of a branch at Collingswood, New Jersey, by Camden Trust Company, provided the absorption of The Citizens National Bank of Collingswood, Collingswood, New Jersey, is effected substantially as proposed and prior formal approval of the appropriate State authorities is obtained.

"In connection with the proposed absorption of The Citizens National Bank of Collingswood by Camden Trust Company the Board of Governors hereby gives its consent to the transaction as required under Section 18(c) of the Federal Deposit Insurance Act, provided the banking house and any and all securities acquired by Camden Trust Company from The Citizens National Bank of Collingswood are not carried on the books of Camden Trust Company at amounts in excess of $100,000 for banking house and the market value of the securities on August 5, 1952."

Approved, for transmittal through the Federal Reserve Bank of Philadelphia, Governor Evans not voting.

Assistant Secretary.