

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 11, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman  
 Mr. Evans  
 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  
 Mr. Connell, Technical Assistant, Division of  
 Selective Credit Regulation

Messrs. Jess Larson, Administrator, Maxwell H. Elliott, General Counsel, and P. W. Jordan, Director, Credit and Finance Division, General Services Administration; and Arthur Phelan, Vice President, Federal Reserve Bank of New York, also were present.

Under date of September 4, 1952, the Board addressed a letter to Mr. Larson raising certain questions which had resulted from its consideration of the contemplated terms and conditions of a proposed V-loan to Reynolds Reduction Company of Richmond, Virginia, a newly organized subsidiary of Reynolds Metals Company, for the expansion of certain aluminum facilities. The letter stated that the Board would be glad to meet with Mr. Larson and consider any views which he might wish to express with regard to this proposed financing, and in accordance with that invitation Mr. Larson had

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asked to meet with the Board this morning.

Mr. Larson explained that General Services Administration had acted as guaranteeing agency under the V-loan program in relatively few cases, that in the circumstances he was not entirely familiar with the practices and techniques involved in this type of financing, and that he and his staff were anxious to have the advice of the Board in this connection. He said that this project constituted an integral part of the program for expansion of aluminum facilities which the Government considered essential to the national defense program, that it was a rather unique as well as urgent part of the total program because other companies were dependent on Reynolds Metals to furnish alumina, and that if the project, which had been under negotiation for many months, fell through at this late date he would have to assume the responsibility. He also brought out that plans were now in process for a third round of facilities expansion and that the announcement of these further plans was being withheld pending a decision on the Reynolds Reduction Company project.

Mr. Larson then referred to the commitment fee and termination fee provisions which it was proposed to incorporate in the bond indenture under the V-loan. He said it was his understanding that a commitment fee was common to commercial banking practice and was normally provided for in connection with a transaction which involved a long-term loan for capital improvements. He went on to say that he was not so familiar with the practices usually

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followed with respect to providing for a premium on repayment of the indebtedness before maturity of the outstanding obligations, but understood that such a provision likewise was customary in this kind of financing. Mr. Larson explained that the negotiations in this case had been protracted, not particularly because of any fault on the part of the Government, but because the borrower and the interested financing institutions had not been able to reach an agreement. He felt it would be very unfortunate if the financing institutions were to withdraw from the negotiations at this stage.

Governor Szymczak then reviewed the role of the Federal Reserve System in relation to the guaranteed loan program. He stated that the Board, under authority granted to it by legislation and by Presidential executive order, had a responsibility with respect to the establishment of rates and fees and that the questions presented by this particular financing were questions as to which the Board had thus far taken no position. With regard to termination fees, Governor Szymczak pointed out that the Board, after consultation with the guaranteeing agencies, had prescribed a rule that no such fee would be permissible, but that this rule applied only to loans for working capital purposes and the question had not come up until this time as to whether the same rule should be applied to long-term loans for facilities. He called attention to the fact that if a rule were to be prescribed with regard to long-term loans, the Board would first have to

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consult with all of the guaranteeing agencies. As to commitment fees, Governor Szymczak pointed out that heretofore the Board had set a maximum rate of 1/2 of 1 per cent, such fee to be shared in by the guaranteeing agency, whereas the current proposal would also provide for the payment of a commitment fee of 1.7 per cent from July 1, 1952 to the date of the execution of the guarantee agreement, which fee would not be participated in by the guaranteeing agency concerned. This proposal, he said, was of a type which the Board had not yet considered. Governor Szymczak assured Mr. Larson that the Board recognized the problem with which he was confronted and the reasons why he was anxious to arrange the financing.

Mr. Phelan said that in commercial banking it is customary to charge a commitment fee, but only where a firm commitment is given, and that in the history of the V-loan program there had not been a case to date where a commitment fee was charged for any period prior to the execution of the guarantee agreement. It was his understanding that the banks involved in the proposed V-loan to Reynolds Reduction Company probably would go along with an elimination of the prior commitment fee but that the insurance companies would resist such a proposal. Mr. Phelan remarked in this connection that the proposal that the fee be charged from July 1, 1952 represented a compromise since originally the insurance companies had requested that it

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begin April 1, 1952. He did not know how the proposed rate of 1.7 per cent was arrived at but thought it probably was based on the Government bill rate and was supposed to represent a reimbursement for loss to the insurance companies through failure to employ their funds otherwise. Mr. Phelan felt, however, that it was probable that the companies had used their funds in the interim period. He noted that the commitment fee would amount to \$108,000 a month during the entire period from July 1 until the guarantee agreement was executed and commented that he thought it would be difficult to justify the allowance of such a fee.

With respect to the proposed premium upon prepayment, Mr. Phelan considered the proposed scale beginning with a 10 per cent premium very high and certainly much higher than the prevailing rate with respect to such fees in commercial banking. He felt that in all the circumstances a premium of 5 per cent might be reasonable in this case and that it would not result in any serious injury to the interests of the Government.

After some further discussion Mr. Noyes summarized the questions under consideration by the Board in connection with the proposed V-loan in the following manner: With respect to the prior commitment fee the questions were: (1) whether the Board would permit the payment of any commitment fee prior to the execution of the guarantee agreement; (2) if so, whether the rate should be limited to the same maximum as on fees charged after the execution of the guarantee agreement; and (3) whether, if it

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should be determined that the prior commitment fee was permissible, it should be required that the guaranteeing agency share in such fee to the same extent as it would in any fee charged following the execution of the guarantee agreement.

Regarding the proposed prepayment premium the questions were:

(1) whether such a premium should be permitted in the case of a long-term loan for facilities; (2) if permitted, whether there should be a restriction on the size of the premium; and (3) if permitted, whether the Government should share in the premium. Mr. Noyes thought that for practical purposes the last question was resolved in the negative because with the payment of the loan in full, the Government would be relieved of any liability in connection with the loan.

There followed an extended discussion covering, among other things, the terms and conditions of the proposed loan, the prospects for obtaining concessions during further negotiations with the financing institutions, the possible disadvantages to the Government inherent in the terms and conditions currently contemplated, and the possibility of accomplishing the financing in other ways, perhaps through the Reconstruction Finance Corporation.

During the course of this discussion Mr. Noyes withdrew from the meeting. At its conclusion Mr. Larson stated that General Services Administration would have no reluctance to comply with any regulations the

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Board might lay down with regard to this type of financing under the V-loan program. He realized the difficulty involved in letting one piece of financing dictate the rules to be laid down for general application and that one deviation from the established rules would almost certainly be followed by requests for concessions in subsequent transactions. Mr. Larson urged, however, that the Board consider providing some flexibility in whatever regulations it might prescribe because General Services Administration appeared to be practically the only guaranteeing agency concerned with financing long-term loans for facilities and this type of financing appeared to involve certain problems which the other agencies did not have to face.

Following a statement by Mr. Larson that he had not engaged personally in the negotiations concerning the proposed loan to Reynolds Reduction Company and could not say what commitments had been made during the course of such negotiations, Messrs. Elliott and Jordan expressed the thought that it might be possible to reopen the negotiations concerning the commitment fee. They doubted, however, the possibility of reopening the negotiations with any hope of obtaining agreement to an elimination of the termination fee.

Mr. Larson then withdrew from the meeting to keep a previous engagement.

There ensued a further discussion of the proposed financing during which Governor Robertson asked Mr. Vest whether the Board had authority under

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the law to take into consideration the so-called advance commitment fee. Mr. Vest responded by saying that the Board had the power to prescribe rates, fees, and charges after consultation with the guaranteeing agencies, that one would usually think of the commitment fee as a fee to be applicable after the guarantee agreement was executed, but that this was not necessarily so, especially where there was a substantial fee being charged prior to the date that the guarantee agreement went into effect. He thought that the Board had the authority to consider the propriety of such a fee if it chose to exercise that authority.

The discussion then turned to the course of action which might be taken in the light of the views expressed at this meeting, and various suggestions were advanced. At the conclusion of the discussion, during the course of which Mr. Connell withdrew from the meeting, Mr. Elliott said that if the Board should decide to consult with the guaranteeing agencies and following that consultation issued regulations having general applicability to V-loan financing, it would be difficult to make an exception in any given case. He would prefer, therefore, that General Services Administration negotiate further with the financing institutions before any general rules were prescribed. He felt that an expression by General Services Administration during further negotiations to the effect that the Board was concerned with the proposed terms and conditions would be helpful in bolstering the position of the Administration.



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Messrs. Elliott and Jordan then withdrew from the meeting.

Following consideration by the Board of the advice which should be given to General Services Administration as to its views, Governor Mills proposed suggesting to Messrs. Elliott and Jordan that representatives of General Services Administration go back to the insurance companies and say to them that the matter had come to the attention of the Board of Governors; that a determination would have to be made by the Board; that in discussion with the Board it had developed that there was a real question whether that body would be willing to prescribe rules to permit the advance commitment fee or the termination fee; that it seemed doubtful whether the Board would do so; that the insurance companies had a good loan, which was to be guaranteed; and that it would be the opinion of General Services Administration that the insurance companies should waive both the advance commitment fee and the provision for a premium upon prepayment of the indebtedness.

It was agreed unanimously that Mr. Boothe should advise Messrs. Elliott and Jordan of this suggested procedure for General Services Administration to follow, and that the Board should take no further action in the matter at the present time. It was understood in this connection that Mr. Boothe also would advise Governor Vardaman, who was unable to attend this meeting, of the action taken by the Board.

At this point Mr. Phelan and all of the members of the Board's staff except Messrs. Sherman and Kenyon withdrew from the meeting and 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 September 10, 1952, were approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective September 14, 1952:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary From</u>	<u>Increase To</u>
	<u>Memoranda from Mr. Vest, General Counsel, Legal Division</u>		
8/5/52	Jean Crosby, Secretary	\$4,035	\$4,160
8/5/52	Evelyn W. Edwards Secretary	4,035	4,160
8/29/52	Jerome W. Shay, Assistant Counsel	9,360	9,600
	<u>Memorandum from Mr. Marget, Director, Division of International Finance</u>		
8/28/52	Dorothy L. Helprin, Economist	4,160	4,330
	<u>Memorandum from Mr. Leonard, Director, Division of Bank Operations</u>		
9/5/52	Dorothy F. Burton, Clerk-Stenographer	3,030	3,175
	<u>Memoranda from Mr. Bethea, Director, Division of Administrative Services</u>		
8/19/52	Mary E. Sanders, Secretary	4,045	4,170
	Alene D. Carroll, Charwoman	2,560	2,630
9/8/52	W. E. Hardy, Messenger	2,952	3,032

Approved unanimously.

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Memorandum dated September 8, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that the temporary appointment of Mary C. Tippet, Telephone Operator in that Division, be extended on a temporary-indefinite basis without change in her present basic salary of \$2,950 per annum, effective September 15, 1952.

Approved unanimously.

Memorandum dated September 8, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that the temporary appointment of James E. Caldwell, Messenger in that Division, be extended on a temporary-indefinite basis without change in his present basic salary of \$2,552 per annum, effective September 14, 1952.

Approved unanimously.

Memorandum dated September 8, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that Virginia E. Leaman, Secretary in the Division of Selective Credit Regulation, be transferred to the position of Stenographer in the Division of Administrative Services, with no change in her present salary of \$3,785 per annum, effective as of the date she reports for duty. The memorandum stated that, in accordance with the Board's established policy, Miss Leaman's basic salary would be adjusted from \$3,785 to \$3,655 per annum effective at the beginning of the first pay roll period following the expiration of six months from the effective date of her transfer, provided she was still occupying the position to which

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she was now transferred or another at the same level.

Approved unanimously.

Memorandum dated September 10, 1952, from Mr. Allen, Director, Division of Personnel Administration, recommending that the basic salary of Charles R. Norris, Assistant Head Messenger, Division of Administrative Services, be adjusted from \$3,660 to \$3,230 per annum, effective September 14, 1952.

Approved unanimously.

Memorandum dated September 8, 1952, from Mr. Sloan, Director, Division of Examinations, recommending that John J. Hart, Technical Assistant, Division of Bank Operations, be loaned to the Division of Examinations for the period from September 22 through December 31, 1952, for duty with the field staff of examiners, and that he be appointed a Federal Reserve Examiner effective September 19, 1952, through December 31, 1952, with official headquarters in Washington, D. C.

Approved unanimously.

Letter to Mr. Slade, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of August 25, 1952, enclosing a copy of a letter addressed by your Bank to First Security Corporation transmitting certain exceptions which were noted in the Board's letter to you of August 7, 1952, and enclosing also memoranda submitted by your Counsel regarding the question whether receipt of 'employees' savings accounts' by First Security Company should be reported as violations of either paragraph (1) or paragraph (2) of section 21(a) of the Banking Act of 1933.

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"We recognize the merits of the points made by your Counsel on the question whether a violation of the law is involved. On the other hand, the statute applies to a corporation which is engaged 'to any extent whatever' in the deposit business, and the providing of the deposit service by First Security Company may be regarded as but an incident of the primary purpose of the company, which is profitmaking in character. However, it is not the Board's practice to undertake to express opinions as to whether the criminal statutes have been violated, as this is a matter which falls within the province of the Department of Justice.

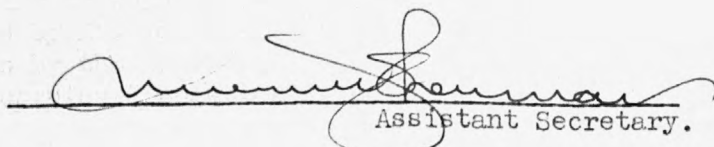
"In the circumstances, the Board continues to feel that it would be well for you to bring the matter to the attention of the holding company affiliate, with advice as to the Board's practice of reporting to the Attorney General apparent violations of the banking laws and with the suggestion that the company supply any additional information or comments it may care to as a basis for your further consideration of the question whether this matter should be so reported."

Approved unanimously.

Letter to the Board of Directors, Norfolk County Trust Company, Brookline, Massachusetts, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment and operation of a branch at 287 Harvard Street, Brookline, Massachusetts, by Norfolk County Trust Company, Brookline, Massachusetts."

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

  
Assistant Secretary.