

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

PRESENT: Mr. Martin, Chairman

Mr. Evans

Mr. Mills

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Solomon, Assistant General Counsel

Mr. Chase, Assistant Solicitor

Before this meeting the attention of the members of the Board who were in their offices had been called to a further letter addressed to the Board under date of October 21, 1952, by Mr. C. F. Wente, President of Bank of America National Trust and Savings Association, San Francisco, California, acknowledging receipt of the Board's letter of October 15, 1952, with respect to participation by the bank in the forthcoming nomination and election of Class A and B directors of the Federal Reserve Bank of San Francisco. Mr. Wente's letter stated that the Board appeared to have denied the bank's request that it re-examine the situation with respect to the affiliation between the bank and Transamerica Corporation on the ground that, since the Clayton Act proceeding against the corporation was pending in the courts, the Board was unwilling at this time to consider events that had taken place since the closing of the record in that case. It also stated that in addition to the new developments referred to in Mr. Wente's letter of

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September 27, 1952, Transamerica Corporation had sold to the general public the balance of its former stock interest in Bank of America National Trust and Savings Association. The letter contained the further statements that in the circumstances, the position taken in the Board's letter of October 15 seemed to be completely inconsistent with the Board's statutory responsibility to determine the issue of affiliation for the purposes of section 4 of the Federal Reserve Act and that this issue involved different questions and was presented in different circumstances from those considered in the Board's prior determination in the Clayton Act proceeding.

Consideration had been given to the question whether the letter called for reply and it had been suggested that, since the election polls would not open until November 10, the Board should reply. Accordingly, the following draft of reply had been prepared:

"The Board has received and carefully considered your letter of October 21, 1952. However, it does not believe the additional fact and arguments contained therein warrant any change in its position."

During a discussion of the question whether a reply should be made, it was stated that although articles had appeared in the press before the date of the Board's letter of October 15 to the effect that Transamerica Corporation had disposed of its stock holdings in Bank of America National Trust and Savings Association, this development had not been mentioned in Mr. Wente's letter of September 27 nor had the Board been advised to that

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effect officially by the holding company affiliate or the national bank and, therefore, no reference to that development had been made in the Board's letter.

In the course of the discussion, Mr. Solomon referred to the portion of the Administrative Procedures Act which states that anyone who makes a request of a Government agency and who is denied that request shall be entitled to be notified of such denial.

At the conclusion of the discussion, the proposed reply to Mr. Wente was approved unanimously, for transmittal through Mr. Wilbur, Chairman of the Federal Reserve Bank of San Francisco.

Chairman Martin referred to a memorandum addressed to him under date of October 27, 1952, by Mr. Thurston, Assistant to the Board, in which Mr. Thurston stated that pursuant to the request of the Board at the meeting on October 20, 1952, he had considered the replies which should be made to two letters received by Mr. Sprecher, Assistant Director, Division of Personnel Administration, from officials of the Congress of Industrial Organizations and the American Friends Service Committee, respectively. With regard to the first letter, Mr. Thurston favored complying with the request for two copies of the Board's procedures with respect to fair employment practices. With regard to the second letter, Mr. Thurston felt that an appreciative acknowledgment would suffice, and his memorandum suggested that, since both letters were addressed to Mr.

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Sprecher, it would be appropriate for Mr. Sprecher to reply over his own signature.

Chairman Martin then suggested that the incoming letters, together with Mr. Thurston's memorandum, be circulated among all of the members of the Board and that in the absence of any objection, replies of the type suggested by Mr. Thurston be sent by Mr. Sprecher.

This suggestion was approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 31, 1952, were approved unanimously.

Letter to Mr. F. J. Sudekum, Chairman, Sub-Committee of Bank Management Committee to Study Capital Structures and Ratios, Missouri Bankers Association, c/o First National Bank in St. Louis, St. Louis, Missouri, reading as follows:

"Your letter of August 12, 1952, addressed to the Federal Reserve Bank of St. Louis, and marked for the attention of Mr. Peterson, Vice President in charge of bank examinations, has been referred to the Board of Governors for reply as your inquiry relates to System practice.

"The Board of Governors is interested to learn that the Bank Management Committee of the Missouri Bankers Association has formed a new Sub-Committee to study capital structures and ratios. It is noted that this action was due to the fact that many banks throughout the State of Missouri have received

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"requests from various supervisory authorities to increase their capital accounts.

"You have inquired what formula or basis the Federal Reserve uses in determining the adequacy of bank capital.

"The Board recognizes that it would be convenient and administratively desirable to have a 'yardstick' which could be applied to every situation, but feels that the matter of the capital adequacy of an individual institution may be determined only after careful analysis of all the relevant facts and circumstances involved in the particular case. Ratios are not a determinant of capital adequacy, and sound judgment must be exercised in deciding whether, in the light of all the circumstances, a bank has adequate capital in relation to the volume, character, and condition of its assets and its responsibilities.

"In view of the foregoing, it is not possible to give categorical replies to your questions numbered 2, 3, 4, and 5. However, it may be helpful to mention certain aspects of the matter.

"As part of a sound judgment on the adequacy of a particular bank's capital, the Board believes that it is appropriate to take into account the extent to which reserves for contingencies or reserves for losses are available to lessen the risks that might otherwise be expected to fall upon ordinary capital accounts. The Board also considers it proper, as part of such a judgment, to recognize that some assets entail little if any risk of loss. Moreover, such would include assets other than cash and Governments which are usually deducted in arriving at the so-called 'Risk Asset' ratio.

"As a labor saving device for making preliminary selection of those banks requiring more detailed analysis, the Reserve Bank and the Board of Governors use various ratios for 'screening out' banks for further study. Nevertheless, such ratios are recognized as being very rough bench-marks even for screening purposes and the review analysts are aware of other factors affecting the institution under review which would indicate the need or lack of need for further analysis. These factors are sought even in institutions whose ratios are far superior to the ratios generally accepted as minima.

"It should be emphasized that any calculations of ratios are purely preliminary ones for the purpose of determining

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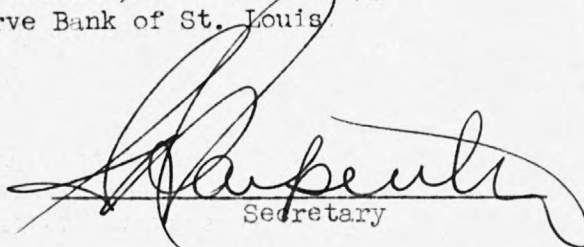
"whether to give further consideration to a particular bank. Furthermore, it must be borne in mind that it often is not in the public interest or to the best interest of a particular bank for it to attempt to rely on apparent safety of assets as a substitute for sufficient capital.

"With respect to your inquiry regarding the issuance of different types of capital, the Board of Governors feels that common stock is the most desirable form of capital for banks. The Board is not disposed to favor the issuance of capital in any form other than common stock because of the long-range implications regarding capital if any other course is pursued. The Board also feels that capital notes and debentures should not ordinarily be considered a suitable form of capital for the protection of depositors.

"With reference to your query relative to the attitude of the Federal Reserve regarding insistence that banks needing additional capital provide such capital, it is the view of the Board of Governors that member banks which clearly need additional capital, in addition to conserving earnings and decreasing or discontinuing dividends if necessary, should exhaust every means at their disposal to provide such capital. If new capital cannot be provided the only alternative would be to reduce the volume of earning assets, eliminating first those which contain the highest degree of risk.

"It may be of some interest to you to know that the subject of the adequacy of bank capital is under continuous study here at the Board. Accordingly, the Board appreciates the importance of the subject to which your Sub-Committee is addressing itself and would like to receive a copy of your report when completed, together with any conclusions reached and recommendations made by your Sub-Committee."

Approved unanimously, with a  
copy to Mr Peterson, Vice President,  
Federal Reserve Bank of St. Louis



Secretary