

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 4, 1953. 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. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of
 Research and Statistics
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Hackley, Assistant General Counsel
 Mr. Cherry, Legislative Counsel

Mr. Cherry said that Chairman Martin was scheduled to appear before the House Banking and Currency Committee tomorrow morning to testify regarding Bill H.R. 4605, to increase the authority for construction of Federal Reserve Bank branch buildings.

Mr. Cherry also said that current plans called for the economic controls bill (S. 1081) to come up for debate on the floor of the Senate beginning about May 12, and that the Banking and Currency Committee agreed last week to an amendment offered by Senator Capehart, Chairman of the Committee, which would provide that the authority with respect to consumer

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and real estate credit controls could not be invoked until the President of the United States found that a grave national emergency existed and established controls over prices, wages, and rents under authority given to him elsewhere in the bill. He said that the House Banking and Currency Committee was to begin hearings in about a week on the extension of certain authorities contained in the Defense Production Act and probably would request a statement from the Board regarding the V-loan program, but that at present it did not appear that the Board would be required to appear and testify unless it desired to do so.

Mr. Cherry reported that the Joint Committee on the Economic Report held a meeting last week and agreed that its staff should proceed with a series of studies on 11 topics suggested by members of the Committee. He said that upon inquiring of the Clerk of the Committee whether there was likely to be anything in the nature of another study such as was made by the Patman Subcommittee last year he was told that such a study was not contemplated, although there would be some investigation of monetary and fiscal policy and interest rates.

The Secretary stated that the draft of the Annual Report of the Board covering operations for the year 1952 was now ready for formal approval by the Board. He said the draft was in the form previously submitted to and approved by the individual members of the Board.

The report was approved unanimously, with the understanding that

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copies would be sent to the Speaker of the House of Representatives and the President of the Senate as soon as it was printed with letters of transmittal signed by Chairman Martin under date of May 8, 1953.

Before this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Vest dated April 30, 1953, regarding four bills relating to the termination of the Reconstruction Finance Corporation and extension of credit to business, on which it was understood hearings would be held before the Senate Banking and Currency Committee commencing on or about May 20, and on which the Board would be asked to testify. The bills in question were: S. 892, introduced by Senator Byrd, of Virginia, providing for the liquidation of the Reconstruction Finance Corporation; S. 1559, introduced by Senator Robertson, of Virginia, authorizing Federal Reserve Banks to guarantee loans; S. 1523, introduced by Senator Thye, of Minnesota, providing for the creation of a Small Business Administration; and S. 1771, introduced by Senator Frear, of Delaware, authorizing the creation of small business insurance and investment corporations. There were submitted with the memorandum (1) a summary of the principal provisions of the four bills, and (2) a review of various proposals which had been made in past years for changes in the law regarding extension of credit to business by or under the auspices of the Federal Reserve System.

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Following a discussion by Mr. Vest of the principal provisions of the bills, Mr. Cherry stated that he thought the Board, when called upon for testimony, would not be required to endorse or oppose any of the bills specifically but would be free to state its views on the questions involved. The ensuing discussion related to some of these questions, suggestions that might be made at the hearing with respect to them, and the position that the Board might take in its testimony at the hearing.

In this connection it was suggested that Mr. Vest, with the assistance of other members of the staff, draft a statement for the consideration of the Board. Mr. Young recalled that the staff had prepared last year for the Select Committee on Small Business, of which Senator Sparkman, of Alabama, was then Chairman, a paper dealing with the credit needs of small business, and he suggested that that paper might be revised and submitted to the Banking and Currency Committee as an appendix to the statement to be drafted by Mr. Vest.

These suggestions were approved
unanimously.

Governor Vardaman suggested that a meeting be called with the guaranteeing agencies under the V-loan program for the purpose of obtaining the views of those agencies on the question of whether an increase should be made in the maximum permissible interest rate on V-loans.

Following a discussion, it was
understood that such a meeting would

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be called for May 6, 1953, and that it would be stated at that meeting that the Board had an open mind on the matter and would like to have the views of the guaranteeing agencies for its benefit in considering whether an increase in the rate should be made.

Mr. Sloan said that he received a telephone call this morning from Mr. Diercks, Vice President of the Federal Reserve Bank of Chicago, who reported on discussions which had been held by the State of Illinois banking authorities and representatives of the Federal Deposit Insurance Corporation concerning Devon-North Town State Bank of Chicago, Illinois, a member bank, against which the Board issued a complaint under section 9 of the Federal Reserve Act on March 27, 1953, and the First State Bank of Elmwood Park, Illinois, an insured nonmember bank. He said that both of these banks were still closed, that efforts were being made to work out some solution to their problems, but that difficulty was being encountered in removing from the banks instalment paper sold to them by the Bankers Discount Corporation, of Dallas, Texas. Mr. Sloan explained that the Federal Deposit Insurance Corporation wanted the State authorities to enter into a contract to sell the assets of the banks to the Corporation but that the State could find no legal basis for the procedure and that it appeared the banks might have to be placed in receivership.

Mr. Sloan further stated that Mr. Hodge, Auditor of Public Accounts for the State of Illinois, and members of his staff had just left the Board's

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offices for discussions at the Federal Deposit Insurance Corporation. He said that the Federal Deposit Insurance Corporation could make a loan on the assets of the banks with a view to organizing new banks, but that the State banking authorities objected to asking the directors of the banks to effect a sale of assets to newly organized banks because such action might involve giving such directors immunity from possible criminal or civil action. He also said that Bankers Discount Corporation had filed a bankruptcy petition.

Following a discussion of this matter, unanimous approval was given to an Order in the following form:

"UNITED STATES OF AMERICA
Before The
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
In the Matter of :
DEVON-NORTH TOWN STATE BANK, :
CHICAGO, ILLINOIS. :

ORDER

1. It is hereby ordered that the time within which an answer may be filed herein be, and it is hereby, extended to and including May 19, 1953, and,

2. It is further ordered that the time fixed for the Hearing herein be, and it is hereby, changed to 10 a.m., June 2, 1953.

Dated the 4th day of May, 1953.

By the Board.

(SEAL)

(Signed) S. R. Carpenter,
Secretary."

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members present:

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 1, 1953, were approved unanimously.

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

"Reurtel May 1 Board extends to July 29, 1953, time within which Greenfield State Bank, Greenfield, California, may accomplish membership."

Approved unanimously.

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

"In view of your recommendation and the information contained in your letter of April 21, 1953, the Board of Governors further extends until November 14, 1953, the time within which Southern Commercial and Savings Bank, East Pasadena, California, may establish a branch at South San Gabriel, California, under authority granted in the Board's letter of September 30, 1952."

Approved unanimously.

Letter to Mr. Coleman, Chairman, Federal Reserve Bank of Chicago, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Chicago, made as of January 30, 1953, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Young.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated."

Approved unanimously.

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Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

"This is in further response to your letter of March 24, 1953, with enclosures, in which you describe certain bank financed charge plans and raise the question as to the applicability of section 22(g) of the Federal Reserve Act and Regulation O to executive officers of member banks who avail themselves of this form of credit.

"It appears from your letter that the essential characteristics of these charge plans are similar, although they vary somewhat in detail. In each of the plans the financing bank in effect acts as the credit department of the various stores which participate. The bank approves individual credit applications, maintains all necessary records and renders periodic bills to customers. It discounts the credit sales slips of its merchant members, and assumes responsibility for collections.

"As a result of such an arrangement, an executive officer of a member bank who makes purchases from a participating merchant may become indebted to the bank involved in the plan; and the specific question raised is whether such officer would be required under section 22(g) and Regulation O to report each individual transaction to the board of directors of his bank.

"After careful consideration, the Board has concluded that if an executive officer of a member bank who has been approved for credit under one of the above-described bank financed charge plans makes a written report to the directors of his bank within ten days after approval of such credit, stating the nature and purpose of the credit, the maximum amount thereof, and the period allowed for repayment, such report will be considered to be compliance with the requirements of Regulation O with respect to the reporting of indebtedness to other banks. No additional reports will be required unless the maximum amount originally approved is increased or the credit actually extended exceeds that amount."

Approved unanimously, with
copies to the Presidents of all
Federal Reserve Banks.

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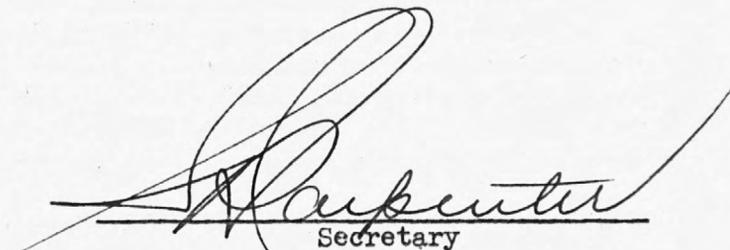
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Letter to Mr. C. C. Luhnaw, Editor and Publisher, Trusts and Estates, 50 East 42nd Street, New York, New York, reading as follows:

"This refers to your letter of April 21, in which you ask if there would be any objection to publication in TRUSTS AND ESTATES of the Board's letter of March 3, 1953, which was addressed to you in response to questions you had raised concerning the publication of excerpts from annual reports to stockholders of banks relating to operating results of common trust funds maintained by such banks.

"The Board will interpose no objection to the publication of its letter of March 3, providing the material contained in paragraphs 2, 3, and 4 thereof is not condensed or altered in any manner."

Approved unanimously.



Secretary