Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 11, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Cherry, Legislative Counsel

There had been sent to each member of the Board for consideration prior to this meeting a copy of a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This is in response to your letter of May 7, 1954, requesting the Board's views with respect to a draft of a bill "To amend section 24 of the Federal Reserve Act" which has been presented by the Treasury Department.

According to the proposed letter from the Secretary of the Treasury to the Speaker of the House of Representatives, which accompanied your letter, the proposed legislation would accomplish three purposes:

"(1) It would permit national banks to make mortgage loans for periods in excess of ten years (which is now the statutory limit) but not exceeding twenty years, provided that such loans are fully amortized by maturity.

(2) It would change the aggregate limits on real estate loans by substituting 20% of total deposits for capital and surplus.

(3) It would change the permissible duration of residential and farm construction loans which need not be considered as real estate loans, from six to nine months."

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The following are the comments of the Board with respect to each of these three enumerated objectives.

(1) The Board agrees with the Treasury Department's view that the maximum term for which "conventional" mortgage loans may be made by national banks, now limited to ten years, can safely be extended to twenty years. However, it is not clear to the Board why the proposed legislation should require every such loan with a maturity of more than ten years to be entirely amortized by its maturity date.

In the case of loans with maturities of ten years or less, the statutory requirements are satisfied by annual amortization averaging 4% of the original principal amount. For example, if a mortgage loan of $10,000 has a eight-year maturity, the total amortization requirement is $3200; with respect to the same loan for a nine-year period, $3600; the same loan maturing in ten years, $4,000. But under the proposed amendment, if the parties desired a maturity of eleven years rather than ten, the required amortization during the life of the loan would jump from $4,000 to $10,000- that is, from 40% to 100% of the loan, or, stated another way, from 4% per annum to 9% per annum.

It is not apparent to the Board that it is either necessary or appropriate to make such an abrupt increase in amortization requirements with respect to any loan with a maturity of more than ten years. It seems that this stringent requirement might unnecessarily hamper national banks in competing with other lenders with respect to real estate loans running for from ten to fifteen or seventeen years, whereas the purpose of the proposal is to give national banks competitive equality in this field, within the limits of safe and sound banking practice.

It appears to the Board that the objective might be more fully achieved if the statute were amended to provide that, in the case of loans maturing in more than ten years, the installment payments be

> "sufficient to amortize the entire principal of the loan within a period of not more than twenty years",

in lieu of the language in the draft bill enclosed with your letter, which would require the installment payments to be

> "sufficient to amortize the entire principal of the loan by its maturity".

In practice, the alternative suggested above would require average amortization of 5% per annum on real estate loans maturing in more than ten years. The existing statutory provisions with respect to amortization loans of ten years or less require annual amortization of 4%, and it is believed that slightly higher amortization requirements are justified in the case of longer-term mortgage loans.

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Federal Reserve Bank of St. Louis

(2) Section 24 at present permits a national bank to make real estate loans in an aggregate amount equal to either (a) 100% of the bank's capital and surplus or (b) 60% of its time and savings deposits, whichever is the greater. The proposed amendment would delete the alternative of 100% of the bank's capital and surplus and would substitute therefor "20 per centum of its total deposits" excluding amounts due to other banks and public funds payable on demand.

When section 24 was enacted in 1913 as part of the original Federal Reserve Act, the aggregate limitations were 25% of capital and surplus or 33-1/3% of time deposits. In the McFadden Act of 1927, the limitations were changed to 25% of capital and surplus or 50% of time deposits. In the Banking Act of 1935, the aggregate limitations were raised to the present level of 100% of capital and surplus or 60% of time and savings deposits. In 1935 at least, Congress was eager to enlarge the participation of national banks in real estate lending, but it was deemed advisable to continue to relate the aggregate limitations to the amount of "permanent" capital structure or the amount of time deposits. Apparently it was felt by Congress, in 1913, 1927, and 1935, that deposits payable on demand were an unsuitable basis for real estate loans, and that the aggregate amount of such loans should be based either on the magnitude of the equity cushion in the bank (i.e., capital and surplus) or on the amount of its time deposits, which Congress considered less likely than demand deposits to be withdrawn suddenly in large volume.

Before approving the proposed amendment on this matter, Congress may deem it advisable to inquire into the justification for the suggested new approach to this subject - that is, to ascertain whether the approach of 1913, 1927 and 1935 was fallacious, or whether pertinent factors have so changed since 1935 as to justify the acceptance of demand deposits as a suitable basis for long-term real estate loans.

It should also be mentioned that the Board's experience and observation do not indicate that any large percentage of commercial banks are restricted in their real estate loan activities by the present aggregate limitations of section 24. Hence the Board would be reluctant to approve the proposed amendment, which would be for the benefit of a relatively few banks and might involve a material potential hazard to the soundness of the banking system.

(3) The Board of Governors is in favor of the proposal to extend the permissible duration of residential and farm construction loans from six months (the present statutory limit) to nine months as proposed in this bill.

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(4) In connection with (1), above, it is noted that the proposed bill apparently would also amend section 24 by forbidding so-called "60% amortization loans" with maturities of five years or less. No mention of this change appears in the proposed letter or memorandum of the Treasury Department, and it may be appropriate for that Department to direct the attention of Congress to this aspect of the proposal and to explain the reasons for it. It is not clear to the Board why a national bank cannot make, for example, five-year 60% amortization loans with safety and with benefit to its community.

The foregoing comments are presented in order that all relevant factors may be weighed in connection with consideration of the proposed bill. The Board of Governors is fully aware that the Comptroller of the Currency, as the primary supervisor, bears the major responsibility for the welfare of the national banking system and has available detailed information regarding its condition and operations, and the several matters mentioned herein may have been taken into account by the Comptroller's Office before the proposed bill was submitted in its present form.

Following a discussion of the language of the draft bill, the letter to Mr. Jones was approved unanimously.

Prior to this meeting there had been sent to each member of the Board a copy of a memorandum from Mr. Young dated June 9, 1954, recommending that the staff be authorized to enter into a contract at this time with the Survey Research Center of the University of Michigan for consumer finances survey work to be conducted in 1955. The memorandum stated that the budget provision for this work would be $150,000, the same as for 1954; that this amount would be incorporated in the general budget of the Division of Research and Statistics; that, in the event unforeseen contingencies should result in survey costs in excess of the contract, authorization of expenditures in excess of the budget provision

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would be requested; and that action by the Board in advance of consideration of the general budget for 1955 was necessary in order that preparatory work on a 1955 survey program might be accomplished both at the Board and at the Survey Research Center.

The memorandum suggested that the Division of Research and Statistics be instructed to give consideration at this stage to the problem of the most desirable frequency and character of the survey work, and in this connection three possible alternatives were mentioned, as follows:

1. A single annual Survey of Consumer Finances comparable to those of recent years.

2. Two or three surveys, conducted within the cost limit of $150,000, with particular emphasis upon economic attitudes and purchase intentions with the sacrifice of much of the financial data.

3. One annual survey comparable in scope with those conducted in the past, together with one or more supplementary surveys at additional cost relating primarily to consumer attitudes and buying plans.

The memorandum concluded by stating that the Division of Research and Statistics would later submit to the Board for approval a recommendation as to a specific survey program for the year 1955.

Governor Mills reviewed the matters covered in the memorandum and recommended its approval.

Thereupon, the recommendations contained in the memorandum were approved unanimously, with the

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understanding that, as stated in the memorandum, the Division of Research and Statistics would later submit to the Board for approval a recommendation as to a specific survey program for the year 1955.

In accordance with the understanding at the meeting on June 8, 1954, there was a further discussion of the procedure for transmitting to the House Banking and Currency Committee reports of examination of the twelve Federal Reserve Banks for 1953 and the 1953 report of examination of the accounts relating to the System open market transactions for the twelve Federal Reserve Banks. There was also discussion of the oral request of Congressman Patman, made through the Clerk of the Banking and Currency Committee, that in addition the reports of examination of the twelve Federal Reserve Banks, together with the reports of examination of the accounts relating to the System open market transactions, for each of the years 1949 through 1952 be made available to the Committee on Banking and Currency for inspection.

At the conclusion of the discussion, it was agreed unanimously that the reports in question should be transmitted to Representative Wolcott, Chairman of the Committee on Banking and Currency, on Monday, June 14. In this connection, unanimous approval was given to a letter for the signature of Chairman Martin to Mr. Wolcott in the following form, with the understanding that it would be sent on June 14 and that a copy would be sent on that date to Chairman Hoffman, of the House Committee on Government Operations:

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On June 2, I appeared before the House Committee on Government Operations at a hearing on H. R. 7602, a bill which would direct the Comptroller General to audit the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve Banks for the year ended December 31, 1953.

In the course of the hearings it was understood that a member of the Board's staff would bring up to your Committee the reports of examination of the 12 Federal Reserve Banks for 1953 and of the audit made of the Board's accounts by Arthur Andersen & Co. for 1953, and that the reports would be furnished for the confidential information of the members of the Congress and the Committee's staff. Congressman Patman, the author of H. R. 7602, stated: "If they will deliver the audits to the Banking and Currency Committee, in charge of the Chairman, and let the experts there see them and let me see them in that committee, it will be perfectly all right to hold up this bill as far as I am concerned....."

In accordance with this understanding, there are attached the reports of examination of the 12 Federal Reserve Banks for the year 1953. Accompanying the 1953 examination report of the Federal Reserve Bank of New York is a report of the examination of the accounts relating to the System open market transactions for the 12 Federal Reserve Banks. The report of the audit of the Board's accounts for 1953 has already been sent to your Committee.

In addition to the above documents, there are also attached the reports of examination of the 12 Federal Reserve Banks, together with the reports of the examination of the accounts relating to the System open market transactions, for each of the years 1949 through 1952. These additional reports are being furnished to your Committee pursuant to the oral request of Congressman Patman made through Mr. Hallahan, Clerk of your Committee.

These documents are being sent to your Committee with the understanding that they may be made available in confidence only to members of Congress and the staff of your Committee. I know you fully understand why it is necessary to treat reports of examination as confidential. These reports contain, for example, information with respect to borrowings by member banks, as well as by concerns and individuals. It is the uniform understanding in the banking field that information with respect to borrowings by firms and individuals from banks will be treated with utmost confidence.

Since the above documents are the only copies in our files, it will be appreciated if they are returned to the Board as soon as they have served the purposes of your Committee.

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Reference was made in this connection to a question which had been raised at the time of Chairman Martin's appearance before the House Committee on Government Operations on June 2, 1954, regarding bank shareholdings by Federal Reserve Bank Class B directors.

> It was agreed unanimously, in order that the Board might have current information, that Mr. Sloan should call an appropriate person at each Federal Reserve Bank on the telephone and request that the Class B directors of the respective Banks be contacted with a view to ascertaining the extent of their bank shareholdings.

Messrs. Sloan and Cherry then withdrew and Mr. Leonard, Director, Division of Bank Operations, entered the room.

Following a statement by Mr. Thomas on the current situation in the money market, there was an extended informal discussion regarding the advisability of taking action during the forthcoming months to reduce member bank reserve requirements. Consideration also was given to the alternative forms such action might take in the light of foreseeable needs for reserves. The discussion was based in part on a memorandum dated June 10, 1954, which had been prepared in the Division of Research and Statistics and was entitled "Some Patterns of Action on Reserve Requirements". Copies of this memorandum were distributed at the beginning of this meeting to the members of the Board present, and a copy has been placed in the Board's files. A number of views on the subject of reserve requirements and related matters were expressed, and at the conclusion of the discussion it was understood

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that the question of reserve requirements would be considered further at the meeting on Tuesday, June 15, 1954, or at some other meeting of the Board in the near future.

There were presented proposed telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on June 7, by the Federal Reserve Bank of Richmond on June 9, and by the other seven Federal Reserve Banks on June 10, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 10, 1954, were approved unanimously.

Letter to Mr. Willis, Secretary, Federal Reserve Bank of New York, reading as follows:

> Reference is made to your letter of June 4, 1954, advising that Thomas J. Roche, Special Assistant in the Foreign Department, was granted a leave of absence with pay for two days in the week beginning June 14, 1954, in order that his services might be made available at the request of the International Monetary Fund for the purpose of conferring with representatives of the Fund on a memorandum on cheap currencies.
>
> The Board of Governors interposes no objection to the arrangement with respect to Mr. Roche as described in your letter.

Approved unanimously.

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Letter to Mr. Kenneth C. Bell, Vice President and Cashier, The Chase National Bank of the City of New York, New York, New York, reading as follows:

> This will acknowledge your letter of May 24, 1954, transmitted through the Federal Reserve Bank of New York, advising the Board of Governors that in accordance with the Directive of the Chief of Finance, U. S. Army Europe, your bank will provide limited military banking facilities at the Railway Station in Heidelberg, Germany, effective May 29, 1954.
>
> Your courtesy in informing the Board regarding the establishment of these facilities is appreciated.

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

S R Carpenter
Secretary

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