

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 25, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Sloan, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Cherry, Legislative Counsel

There were presented requests from Mr. Johnson, Controller, and Director, Division of Personnel Administration, and Mr. Sprecher, Assistant Director, Division of Personnel Administration, for authority to travel to Chicago, Illinois, during the period April 30-May 5, 1955, to attend the Conference of Personnel Officers of the Federal Reserve Banks.

Approved unanimously.

Requests had been received from the Senate Banking and Currency Committee for reports, to be in the Committee's hands as early as possible this week, on Bills S. 1187, S. 1188, S. 1189, and S. 1736. Drafts of reports on the first three bills and a copy of the Board's letter of March 29, 1955, to the Bureau of the Budget on the proposal contained in S. 1736 had been sent to the members of the Board prior to this meeting.

Various suggestions for changes in the reports were made and it was understood that revised drafts would be prepared for consideration at a meeting of the Board this afternoon.

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During the discussion of the proposed reports, Mr. Riefler, Assistant to the Chairman, entered the room.

Governor Balderston expressed concern over the real estate credit situation, citing reports which had come to his attention relating to apparently unsound lending practices, particularly on the part of savings and loan associations. He pointed out that distortions in this phase of the economy would affect the whole economic situation and complicate the Federal Reserve System's task of determining credit policies. In view of these relationships and the fact that a deterioration in real estate values would endanger certain financial institutions, with repercussions on the commercial banking system, he felt that there was serious doubt whether the Board should remain silent. He went on to suggest that if the other members of the Board shared his views, the question remained as to the method by which the Board might express its concern most appropriately.

In a discussion which followed, relating mostly to terms of credit available under Government insurance or guarantee and to the power of the administering agencies to adjust their terms of insurance and guarantee under existing authority, Mr. Riefler stated that the National Housing Council, an interagency organization provided for under Reorganization Plan 3 of 1947, had been activated; that Mr. Thomas, Economic Adviser to the Board, had attended meetings of the Council; and that as the result of discussions at those meetings, the Federal Housing Administration was requested to conduct a survey with a view to developing the extent of

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competitive practices in the field of real estate credit. In the circumstances, the suggestion was made that Mr. Thomas be asked to report regarding the discussions that had taken place within the National Housing Council and to comment on the aforementioned survey at a meeting of the Board next week.

There was unanimous agreement with this suggestion.

The meeting then recessed and reconvened at 3:30 p.m. with the same attendance as at the conclusion of the morning session except that Mr. Riefler was not present.

Pursuant to the understanding at this morning's meeting, revised drafts of reports to the Senate Banking and Currency Committee had been prepared concerning four bills on which the Committee had asked for the Board's comments. The revised drafts were read and suggestions were made for further changes.

Unanimous approval was then given to letters in the following form, for the signature of Vice Chairman Balderston, to the Honorable J. W. Fulbright, Chairman of the Committee on Banking and Currency, United States Senate, with the understanding that copies of the letters would be sent to the Bureau of the Budget for its information:

This is in reply to Mr. Yingling's letter of April 12, 1955 requesting the opinion of the Board of Governors as to the merits of S. 1187, a bill to amend section 5221 of the Revised Statutes, relating to voluntary liquidation of national banks.

In addition to a clarifying amendment and the deletion of an obsolete provision, the effect of S. 1187 would be to

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eliminate the requirement that notice of the pending liquidation be published in a New York City newspaper. Publication of such notice in a local newspaper would continue to be required.

The Board of Governors favors the enactment of the pending bill.

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This is in reply to Mr. Yingling's letter of April 12, 1955 requesting the opinion of the Board of Governors as to the merits of S. 1188, a bill to amend section 5240 of the Revised Statutes, relating to the examination of national banks by the Comptroller of the Currency.

At present, section 5240 requires that every national bank be examined at least twice in each calendar year. S. 1188 would modify this requirement by authorizing the Comptroller of the Currency, in his discretion, to waive one such examination not "more frequently than once during each two-year period beginning January 1, 1955". The bill also would provide that the amount of the annual examination-expense assessment upon a national bank would be the same regardless of whether the bank was examined once or twice in the particular year.

It is understood that the Comptroller of the Currency does not intend to waive examinations in all possible cases, but rather to adjust examination schedules so as to obtain the maximum benefit from the examination work performed, and that the authority to waive examinations will be exercised only in cases where the management, capital adequacy, and asset condition of the bank are on a very high plane.

Accordingly, the Board of Governors favors the enactment of S. 1188.

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This is in reply to Mr. Yingling's letter of April 12, 1955 requesting the opinion of the Board as to the merits of S. 1189.

At the present time, section 24 of the Federal Reserve Act imposes a ten-year limit upon the maturity of so-called "conventional" real estate loans by national banks. Under the amendment proposed by S. 1189, a national bank would be permitted to make such loans with maturities up to 20 years,



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provided that the loan agreement called for installment payments "sufficient to amortize the entire principal of the loan within a period of not more than twenty years". S. 1189 also would authorize national banks to make real estate "construction loans" under the third paragraph of section 24 with maturities up to nine months, in lieu of the six-month limitation prescribed at present.

In the opinion of the Board of Governors, enactment of the proposed amendment of section 24 of the Federal Reserve Act would modernize the mortgage lending powers of national banks to bring them in line with sound present-day practices and conditions in a manner compatible with the public interest.

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This is in reply to Mr. Yingling's letter of April 22, 1955 requesting the opinion of the Board of Governors as to the merits of S. 1736, a bill to amend section 5146 of the Revised Statutes with respect to the place of residence of directors of national banks.

In his letter requesting the introduction of S. 1736, the Secretary of the Treasury stated that the present statutory provision regarding residence within fifty miles of the bank is "unrealistically restrictive" in the light of modern-day transportation, and he recommended a one-hundred-mile limitation in lieu thereof. The Board of Governors agrees that, under present-day conditions of transportation and communication, a one-hundred-mile limitation is more appropriate, and consequently the Board favors enactment of the proposed bill.

Governor Balderston reported receipt of a telephone call from Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, who referred to his earlier telephone conversation with Chairman Martin concerning the request of the Chairman of the House Committee on Government Operations for an audit of the Federal Reserve System and said that he favored transmitting copies of the Board's correspondence on the matter to the Presidents of all Federal Reserve Banks.

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Governor Balderston said he replied to President Young that the Board probably would want to send a communication to the Chairmen of the Federal Reserve Banks in a form similar to whatever was sent to the Reserve Bank Presidents and that word had not yet been received from Mr. Virden, Chairman of the Chairmen's Conference, with whom Chairman Martin had also discussed the matter.

In the expectation that Mr. Virden would make his views known shortly, Governor Balderston had asked Mr. Carpenter to draft a letter which might go to all of the Chairmen and Presidents, and copies of that draft were distributed at this time.

There was a general discussion of the draft and several suggestions were made for revisions in it. In the course of the discussion, Governor Balderston said that the draft reflected the concern of Governor Szymczak, who was in President Young's office when the latter called on the telephone, that the request for an audit should not be discussed outside the Federal Reserve System for the time being.

Unanimous agreement was reached on a letter in the following form, with the understanding that upon receipt of word from Chairman Virden that he concurred in the transmittal of advice to the Chairman of each Reserve Bank, the letter would be sent over the signature of Vice Chairman Balderston to the Chairmen and Presidents of all Federal Reserve Banks and the President of the Federal Advisory Council:

There are attached copies of correspondence relating to a request from Congressman Dawson, Chairman of the House

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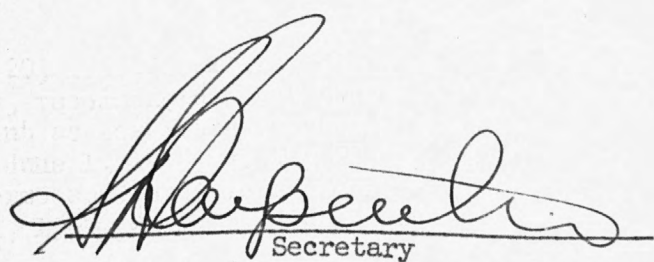
Committee on Government Operations, to Mr. Joseph Campbell, Comptroller General, that the latter make an audit of the Board, the Open Market Committee, and the Reserve Banks.

You will observe that Chairman Martin's letter of April 22 to Congressman Dawson requests an opportunity to discuss the matter with him at an early date. The Board will keep you advised of developments.

Secretary's Note: The letter was sent on April 26, 1955.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 22, 1955, were approved unanimously.

The meeting then adjourned.

  
Secretary