

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 20, 1950.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
Mr. Verdaman

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 17, 1950, were approved unanimously.

Memorandum dated February 20, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective March 5, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Percy C. Riston	Assistant Foreman, Laborers, (N)	\$3,220	\$3,300
Beverly A. Carter	Mail Clerk	2,850	2,930

Approved unanimously.

Letter to Mr. Morrison, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"For the reasons outlined in your letter of February 13, 1950, the Board of Governors approves the payment of salary to Mary Hirschman at the rate of \$2,160 per year, effective February 1, 1950. It is understood that this rate is above the maximum salary of the grade in which Miss Hirschman's job is presently classified."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve

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Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of February 14, 1950, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Kansas City.

Joyce M. Armstrong  
Lois N. Means."

Approved unanimously.

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

"Retel 16th. Board approves appointments of Messrs. Shannon Crandall, Wakefield Baker, Edmund Hayes, Walter A. Starr, and J. A. Folger as members of Industrial Advisory Committee for 12th Federal Reserve District to serve for year beginning March 1, 1950."

Approved unanimously.

Letter to The National City Bank of New York, New York, New York, reading as follows:

"The Board of Governors of the Federal Reserve System authorizes The National City Bank of New York, pursuant to the provisions of section 25 of the Federal Reserve Act, to establish a branch in the City of Salvador, State of Bahia, Brazil, and to operate and maintain such branch subject to the provisions of such section; upon condition that unless the branch is actually established and opened for business on or before March 1, 1951, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date."

Approved unanimously,  
together with the following  
letter to Mr. Wiltse, Vice  
President of the Federal Reserve Bank of New York:

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"Enclosed is a letter of the Board of Governors authorizing The National City Bank of New York to establish a branch in the City of Salvador, State of Bahia, Brazil, which you will please deliver to the bank. A copy of this letter is enclosed for your files.

"Please ask the bank to note that the authority to establish the branch will automatically terminate on March 1, 1951, if the branch is not actually established and opened for business on or before that date, and request the bank to advise the Board in writing through the Federal Reserve Bank of New York when the branch is so established and opened for business."

Letter to Mr. Sheehan, Chief Examiner of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of February 9, 1950, submitting the request of 'The Patchogue Bank', Patchogue, New York, for approval of a reduction in its common capital stock from \$200,000 to \$100,000 par value in connection with a program for capital readjustment which contemplates the retirement, at \$137,500 retirable value, of \$55,000, par value, preferred stock held by the Reconstruction Finance Corporation.

"On January 10, 1950, the Board of Governors approved the proposed reduction in common stock in connection with a plan which also contemplated the sale of 2,000 additional shares of common stock, par \$25, at \$70 per share, to result in an increase of \$50,000 in common capital and \$90,000 in surplus. It is understood that it is now proposed to effect the reduction in common and retirement of preferred stock as indicated prior to the sale of the additional common shares.

"In view of your recommendation, the Board approves the reduction in the par value of the common capital stock of the Patchogue Bank, Patchogue, New York, from \$200,000 to \$100,000, with the understanding that the sale of 2,000 additional shares of common stock, par \$25 at \$70 per share, as originally proposed, will be undertaken without undue delay, and provided formal approval of the appropriate State authorities is obtained; also with the understanding that counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to accomplish the

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"reduction in common capital."

Approved unanimously.

Letter to Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of February 13, 1950, submitting, with your favorable recommendation, the request of the Jeff Davis Bank and Trust Company, Jennings, Louisiana, for permission to act as joint trustee with The Calcasieu-Marine National Bank of Lake Charles, Lake Charles, Louisiana, under a mortgage indenture securing an issue of bonds of the First Baptist Church, Jennings, Louisiana, in the amount of \$50,000.

"It is noted that the duties of the bank in connection with this trusteeship will involve authentication of the bonds to be issued under the indenture of mortgage and the performance of other ministerial duties commonly involved in trusteeships of this kind and that the accompanying responsibilities will be limited in nature. It is further observed that it is not the desire of the bank to exercise general trust powers and that the authority requested is solely to permit the bank to act in the specific instance.

"In the circumstances, the Board will interpose no objection to the Jeff Davis Bank and Trust Company acting as joint trustee in the matter above described with the understanding that it will not acquire any other fiduciary business without first obtaining the permission of the Board. Please advise the bank accordingly."

Approved unanimously.

Letter to Mr. Grover W. Ensley, Joint Committee on the Economic Report, 11-C, Senate Office Building, reading as follows:

"This refers to your letter dated February 7 and the accompanying letter dated February 2 sent to Senator Douglas by Mr. C. F. Burton, President of The City Bank, Washington, D. C. Mr. Burton's letter is returned herewith, and pursuant to your request a draft of a suggested reply is also enclosed.

"The City Bank was a member of the Federal Reserve System

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"during the period July 11, 1940 - November 16, 1949. Since the city of Washington is a reserve city, The City Bank was classified as a reserve city bank. Mr. Burton on a number of occasions requested that the bank be given permission to carry the reserves applicable to so-called 'country banks'. Under the law, such permission may be given to a member bank located in an outlying district of a reserve city. Mr. Burton was informed that the Board was precluded from giving favorable consideration to his request because The City Bank is not located in an outlying district of the city of Washington, its head office being located at Ninth and Massachusetts Avenue, N. W., and one of its branches on Pennsylvania Avenue, N. W., between Ninth and Tenth Streets. Mr. Burton has also stated from time to time that there is no justification for the Board to continue the reserve city designation of Washington, and we have had a good deal of correspondence with him on the subject of the basis of designation of reserve cities."

Approved unanimously,  
together with a draft of  
suggested reply from Senator  
Douglas to Mr. Burton, reading  
as follows:

"I have your letter of February 2, calling attention to the statement, 'Another aspect of reserve requirements to which we wish to call attention is the geographical basis of member bank reserve requirements against demand deposits', which appears on page 36 of the recent report of the Subcommittee on Monetary, Credit, and Fiscal Policies (Senate Document 129, 81st Congress, Second Session).

"This statement is based on testimony offered at the Subcommittee hearings and in replies to questionnaires sent to the Board of Governors of the Federal Reserve System and to the Presidents of the Federal Reserve Banks; it is merely a short-cut description of the incidence of existing differentials in reserve requirements. These differentials were described in the following manner by Chairman McCabe of the Board of Governors of the Federal Reserve System (see page 54 of the Committee document, 'Monetary, Credit, and Fiscal Policies', containing the replies to the Committee's questionnaire):

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"The existing statutory basis for member bank reserve requirements tends to be inequitable in important respects as among banks. The present system of classifying banks for reserve purposes on the basis of geographic location dates back to the establishment of the national banking system over 35 years ago. A member bank's designation for reserve-requirement purposes depends on whether it is located in a central Reserve city or in a Reserve city, or whether it is outside of these cities--a so-called country bank. A member bank located in a central Reserve or Reserve city must hold reserves at the higher percentages designated for such a center, irrespective of whether it is doing the correspondent banking type of business (holding of interbank balances and non-member bank reserves, which is associated with the designation of a Reserve city and initially was the justification for the higher requirements for banks in Reserve cities). On the other hand, another member bank holding an important volume of deposits of banks, but located outside the Reserve city areas, need maintain only the reserve percentages required of country member banks. Some inequities of this kind have been relieved by the Board's discretionary authority relating to outlying areas of Reserve cities, but many cases of inequity cannot be solved in this way and a basic problem of equity of treatment as among member banks still remains.'

"While, as you point out, there is no geographical basis for designating reserve cities, once a city has been designated as a reserve city every member bank in the city, solely by reason of such geographic location, is subject to the reserve requirements applicable to reserve city banks unless it is in an outlying district of such city and the Board of Governors, pursuant to the law, gives it permission to carry the reserves applicable to member banks located outside of reserve cities.

"As you doubtless know, most of the existing reserve cities were designated as such by Congress or by the Comptroller of the Currency, before the Federal Reserve System was estab-

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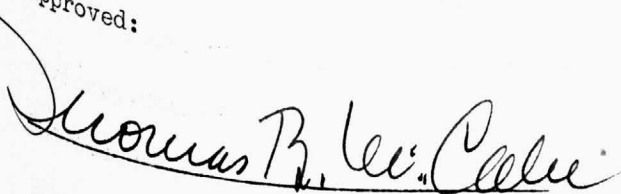
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"lished, while the others were designated by the Board of Governors of the Federal Reserve System. I understand that, although the Board of Governors did not until December 1947 formally adopt a formula for designating reserve cities on the basis of the proportion of interbank deposits held by member banks in the city, the Board has always taken into account the general character of banking business transacted by member banks in the city, including the amount of correspondent banking business. The difficulties experienced by the Board in the designation and termination of reserve cities and in acting on applications for permission to carry reduced reserves are, I am advised, among the reasons for the suggestion that consideration should be given to a fundamental revision in the basis for establishing bank reserve requirements.

"I appreciate your letter and I am sure the Committee on Banking and Currency will be glad to have any specific suggestions you may care to make for changes in bank reserve requirements."

  
Secretary.

Approved:

  
Chairman.