

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 21, 1950.

PRESENT: Mr. McCabe, Chairman  
Mr. Vardaman

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

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 18, by the Federal Reserve Bank of St. Louis on April 19, by the Federal Reserve Banks of New York, Philadelphia, Richmond, Atlanta, and Chicago on April 20, 1950, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 19, 1950, from Mr. Thomas, Economic Adviser to the Board, recommending that the resignation of Mrs. Ruth Jones, his secretary, be accepted to be effective, in accordance with her request, at the close of business April 28, 1950.

Approved unanimously.

Telegram prepared pursuant to the understanding at the meeting on February 14, 1950, to Robert P. Patterson, Patterson, Belknap & Webb, 1 Wall Street, New York, New York, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you Class C director of the Federal Reserve Bank of New York for the unexpired

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"portion of term ending December 31, 1952, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

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

"In accordance with the request contained in your letter of April 18, 1950, the Board approves the appointment of Lawrence Alvin Yates as an assistant examiner for the Federal Reserve Bank of Cleveland.

"Please advise us of the date upon which the appointment is made effective and also as to the salary rate."

Approved unanimously.

Letter to the Organization Committee of the "Bank of Silvis", Silvis, Illinois, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the following special condition, the Board approves the Bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago, effective if and when the bank is authorized to commence business by the appropriate State authorities.

- "3. At the time of admission to membership such bank shall have a paid-in and unimpaired capital stock of not less than \$50,000 and other capital funds of not less than \$30,000."

The letter also contained the following special comment:

"Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted

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"by the board of directors after the bank's Certificate of Authority to do a Banking Business has been issued. The board of directors should also adopt, at the same time, a resolution ratifying the action which has been taken in the bank's behalf in making application for membership in the Federal Reserve System. A certified copy of each resolution, together with advice of compliance with the condition to be complied with prior to admission to membership, should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank."

Approved unanimously,  
together with a letter to  
Mr. Young, President of the  
Federal Reserve Bank of Chi-  
cago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application made on behalf of the 'Bank of Silvis', Silvis, Illinois, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the organization committee of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Auditor of Public Accounts for the State of Illinois, for his information.

"Before issuing stock in the Federal Reserve Bank of Chicago to the new State institution, you are requested to satisfy yourself that its capital stock of \$50,000 has been paid in, that a Certificate of Authority to do a Banking Business has been issued, and not less than \$30,000 of other capital funds provided, as set forth in the plan submitted. At such time your Counsel should review all steps taken in the organization of the bank, and certified copies of all organization papers and resolutions adopted by the board of directors should be forwarded to the Board, together with a copy of Counsel's opinion."

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

"Reference is made to your letter of April 11, 1950, submitting the request of 'The Marine Trust Company of Buffalo', Buffalo, New York, for permission to establish a second branch in the City of Lackawanna, New York.

"It is noted approval of the appropriate State authorities has been obtained and in view of your recommendation the Board of Governors approves the establishment and operation of a branch in the City of Lackawanna, New York, in the vicinity of Abbott Road and Dorrance Avenue, by The Marine Trust Company, Buffalo, New York, provided such branch is established within one year from the date of this letter. It is understood Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter to Mr. George E. Spargo, General Manager, Triborough  
Bridge and Tunnel Authority, Randall's Island, New York 35, New York,  
reading as follows:

"This is in reply to your letter of April 10, 1950, enclosing a copy of Chapter 290 of the Laws of 1950 of the State of New York, together with a copy of the annual report of the Triborough Bridge and Tunnel Authority. You state that your attention has been called to the fact that the recently enacted New York statute 'does not agree with section 5136 of the Federal Reserve Act' and you ask whether we would sponsor or approve an amendment to this Act to bring it in line with present State law.

"The New York statute amends paragraph (b) of subdivision 1 of section 103 of the Banking Law of New York so as to permit the total liability of the Triborough Bridge and Tunnel Authority to any State bank or trust company to equal not more than 25 per cent of the capital and surplus and undivided profits

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"of such bank or trust company. It appears that the limitations of subdivision 1 of this section of State law apply to the liability of any one person to a State bank or trust company, whether in the form of a direct liability on a loan or as obligor or maker on securities purchased by the bank. Under Federal law, as you probably know, the two different forms of liability are treated separately.

"Section 5200 of the United States Revised Statutes in effect limits the amount which a national bank may loan to one person to 10 per cent of the bank's capital and surplus, with certain exceptions. Section 5136 of the Revised Statutes prohibits a national bank, again with certain exceptions, from purchasing and holding for its own account the investment securities of any one obligor or maker in a total amount exceeding 10 per cent of the bank's capital and surplus. Consequently, a national bank may make loans to one borrower up to the full amount permitted by section 5200 and, in addition, hold eligible investment securities of the same obligor to the full amount permitted by section 5136, so that, in the ordinary case, the total obligations of one borrower may be as much as 20 per cent of the bank's capital and surplus.

"It is our understanding that the Triborough Bridge and Tunnel Authority effects its financing through the issuance of securities rather than bank loans and that, therefore, you are chiefly concerned with the fact that section 5136 of the Revised Statutes would prohibit a national bank from holding securities issued by the Authority in an amount exceeding 10 per cent of the national bank's capital and surplus.

"By reason of certain provisions of section 9 of the Federal Reserve Act, State banks which are members of the Federal Reserve System are made subject to the limitations of section 5136 of the Revised Statutes and the Board, therefore, has an interest in that section. However, the administration of the section is vested primarily in the Office of the Comptroller of the Currency and the Board would not wish to express any view as to the desirability of amending the section without first consulting with the Comptroller of the Currency. Accordingly, if you feel that an amendment is desirable, you might wish to communicate directly with the Office of the Comptroller of the Currency or, if you prefer, we would be glad to take up the matter with that Office."

Approved unanimously.

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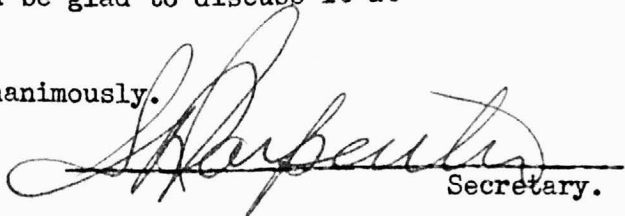
Letter dated April 20, 1950, to Mr. H. V. Prochnow, Secretary, Federal Advisory Council, Chicago 90, Illinois, reading as follows:

"This letter is in response to yours of April 14 relating to the next meeting of the Federal Advisory Council which is to be held on May 14-16, 1950. The Board Room will be available for the Council on the afternoon of Monday, May 15, and the usual arrangements have been made for luncheon for 14 in the Blue Room on Tuesday, May 16. The matters referred to in the last two paragraphs of your letter will be taken care of.

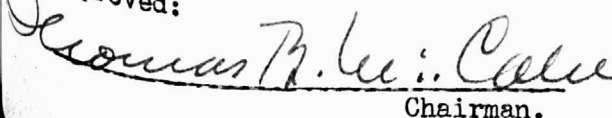
"The Board of Governors will be pleased if the following items could be added to the agenda for discussion with the Board at the joint meeting on the morning of May 16:

1. The Board would like to have the current views of the members of the Council regarding economic and business conditions during the next six months.
2. Does the Council have any suggestions to make to the Board with respect to the Treasury re-funding program and the manner in which the deficit should be financed during the remainder of the current calendar year?
3. The Board would like to discuss with the Council the current situation with respect to bank holding company legislation.
4. At the last meeting of the Council a special committee was appointed under the chairmanship of Mr. Fleming to give further consideration to the proposal that reserve requirements of a member bank be based on the character of the bank's deposits rather than on the location of the bank. If the report of the committee will be available by the time of the forthcoming meeting, the Board would be glad to discuss it at that time."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.