

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 15, 1952.

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

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 May 14, 1952, were approved unanimously.

Memorandum dated May 6, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Vendel O. Jeffries, Messenger in that Division, be accepted to be effective, in accordance with his request, at the close of business May 6, 1952.

Approved unanimously.

Letter to Mr. Meyer, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"In view of the circumstances described in your letter of May 13, 1952, the Board of Governors approves retroactive to April 1, 1952, the payment of salaries to Stanley W. Gardner and George S. Komes, while serving as split-shift elevator operators, at the rate of \$4,272.32 per annum each, which, when converted to an annual rate, exceeds the maximum established for the grade in which their position is classified."

Approved unanimously.

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Letter to Mr. Erickson, President, Federal Reserve Bank of Boston, reading as follows:

"There is enclosed a copy of a letter recently received from the Korean Ambassador regarding the desire of Mr. Kee Il Choi, a student at Harvard University, to obtain some experience with the central banking system of this country through training at your Bank this summer.

"As you will note, the language of the letter seems to indicate that Mr. Choi may have in mind obtaining a temporary position within the Reserve Bank on a compensated basis and, if this is the case, the request would probably have to be discouraged. If, on the other hand, he merely wishes to spend some time observing the various functions and a program could be worked out which would be satisfactory from your standpoint, it would seem desirable to offer some assistance to him. We have checked this matter with the State Department and have been advised that they would be in favor of complying with the request as being in line with the general policy of assisting the Koreans on technical matters so that they may be better prepared to assume the responsibilities of self-government. The Department, however, had no information as to the merits of this particular case.

"It would be appreciated if you could assign some appropriate member of your staff to contact Mr. Choi and explore the matter further with him.

"You may recall a somewhat similar request made by a Burmese student about this time last year. That request occasioned an exchange of correspondence between Mr. Neal and the Board, but our records fail to disclose whether it was possible to arrange to provide him the assistance he desired."

Approved unanimously.

Letter to The First National Bank of McAlester, McAlester, Oklahoma, reading as follows:

"This refers to the resolution adopted on February 21, 1952, by the board of directors of your bank, signifying the

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"bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by section 11(k) without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of section 11(k)."

Approved unanimously, for  
transmittal through the Federal  
Reserve Bank of Kansas City.

Letter to Mr. Erickson, President, Federal Reserve Bank of Boston,  
reading as follows:

"The report of examination of your Bank as of November 7, 1951, shows that three penalties for deficient reserves of member banks aggregating \$56.35 were waived in error during the period from January 1 to November 7, 1951, apparently due to misinterpretation of the instructions (F.R. L.S. #6120) pertaining to waivers of penalties. As further described in Mr. Harvey's letter of May 7, these deficient reserve penalties were waived in the cases of Franklin National Bank, Franklin, New Hampshire, Merchants National Bank, Newburyport, Massachusetts, and Merchants National Bank, Dover, New Hampshire.

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"In order that there may be no question in the future as to the action taken, the Board ratifies the action of your Bank in waiving these penalties."

Approved unanimously.

Letter to the board of directors of The First Trust Company, St. Joseph, Missouri, 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 Kansas City:

"3. At the time of admission to membership, such Trust Company shall have capital stock of not less than \$200,000."

The letter also contained the following special comments:

"While standard conditions numbered 1 and 2 contain references to depositors and deposit liabilities it is understood that the Trust Company does not contemplate engaging in the business of accepting deposits. Attention is invited to the fact that if the Trust Company desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the Trust Company since the time of its application for membership.

"It is noted from the report of examination for membership that the examiner has recommended that an efficient auditing program be adopted and made to function in connection with trust assets and trust transactions. This matter was discussed with the management and it is assumed that it will be given attention."

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Approved unanimously, together with the following letter to Mr. Leedy, President, Federal Reserve Bank of Kansas City:

"The Board of Governors of the Federal Reserve System approves the application of The First Trust Company, St. Joseph, Missouri, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors 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 Commissioner of Finance for the State of Missouri for his information.

"It is noted that the latest amendment to the Articles of Association of this Trust Company provides for seven directors, whereas the actual number now serving, as indicated in the membership examination report, is nine. While the Missouri statutes (Ch. 39 § 8041; R.S. 1929 § 5438) provide, in lieu of an amendment to the Articles of Association, a procedure whereby stockholders at any annual meeting may change the number of the Trust Company's directors, such change shall not become effective until approved by the Commissioner. The papers submitted with this application do not indicate whether this statutory procedure has been followed and the matter should be called to the bank's attention so that appropriate corrective action may be taken if necessary."

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

"This refers to your letter of March 28, 1952, wherein you outline a proposed division of the work now performed by your Trust Investment Committee which proposal will involve creation of two or more trust investment committees for the purposes described in subsection (c), section 6 of Regulation F. You have requested an opinion of the Board regarding the propriety of the contemplated action under the applicable provisions of this Regulation.

"Your letter relates that the board of directors of your bank has established a Trust Committee composed of not

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"less than three members of the board. This committee has been assigned the responsibilities outlined in subsection (b), section 6 of Regulation F, including the general supervision of the trust department, the determination of the policies of such department and broad responsibilities relating to the investment of trust funds. Also, in compliance with the requirements of subsection (c) of this section, the board of directors has established a Trust Investment Committee, composed of not less than three capable and experienced officers of the bank, which is subject to the direction of the Trust Committee. The responsibilities and functions of the Trust Investment Committee parallel those detailed in subsection (c).

"You further state that the volume of work devolving upon the Trust Investment Committee is so great that more efficient discharge of the necessary committee functions related to fiduciary account administration would result if this work were divided among two or more trust investment committees. The immediate result of this proposed committee rearrangement would be to place under the supervision of one trust investment committee the actions required in connection with pension and profit sharing trusts under administration by your bank, while the administrative actions relating to other personal trusts would be placed under the supervision of a separate trust investment committee. You also indicate the possibility that, in the future, it may appear desirable to create additional trust investment committees to share the administrative functions relating to personal trusts in the interest of more effective committee attention to the administration of trust investments.

"It is the opinion of the Board that an allocation of administrative functions among two or more trust investment committees is not inconsistent with the requirements, the intent or the spirit of the applicable provisions of Regulation F provided (1) the scope of responsibilities and functions of such trust investment committees does not extend beyond that outlined in subsection (c), section 6 of Regulation F and does not impinge upon the primary, directive responsibilities of the board of directors (or its trust committee); (2) all such trust investment committees operate under clear policy directives from the board of directors

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"(or its trust committee); (3) effective measures are adopted to promote coordination of activities of such committees through liaison membership or otherwise; and (4) the actions of such trust investment committees are subject to review and control by the board of directors."

Approved unanimously, together  
with the following letter to the Presi-  
dents of all Federal Reserve Banks:

"The Board recently considered an inquiry from a national bank exercising trust powers relative to the propriety, under the provisions of section 6 of Regulation F, of a proposal to create two or more trust investment committees to share the work involved in discharging the investment administrative functions required by subsection (c). The inquiring bank stated that the volume of its trust business is so great that those administrative functions required to be based upon collective judgment cannot be efficiently or effectively discharged by one committee and that committee activities relating to distinct types of trust business, such as pension and profit sharing trusts, might be separated with increased administrative effectiveness.

"The Board expressed the opinion that an allocation of administrative functions among two or more trust investment committees is not inconsistent with the requirements, the intent or the spirit of the applicable provisions of Regulation F provided (1) the scope of responsibilities and functions of such trust investment committees does not extend beyond that outlined in subsection (c), section 6 of Regulation F and does not impinge upon the primary, directive responsibilities of the board of directors; (2) all such trust investment committees operate under clear policy directives from the board of directors; (3) effective measures are adopted to promote coordination of activities of such committees through liaison membership or otherwise; and (4) the actions of such trust investment committees are subject to review and control by the board of directors.

"In commenting on the considerations underlying its views on this question, the Board noted that subsection (b), section 6 of Regulation F centers in the board of directors responsibility for the investment of trust funds, the disposition of trust investments, the supervision of the trust

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"department and the determination of the policies of such department. Subsection (c), section 6 of Regulation F sets forth the administrative functions of the trust investment committee, and also provides that this committee may have such additional duties relating to the trust department as may be prescribed by the board of directors. The practices of national banks have not been uniform with respect to the creation of committees for discharge of the responsibilities and functions outlined in subsections (b) and (c), section 6 of Regulation F. Such committees vary considerably in name, in composition and in the scope and nature of their assigned functions. For example, it is not unusual for the board of directors of a national bank to delegate to the trust investment committee, subject to review by the board, authority for general supervision of fiduciary activities (subsection (b) provisions) in addition to the administrative functions described in subsection (c). Under arrangements of this kind, of course, the creation of two or more trust investment committees would run counter both to the purposes underlying the provisions of the Regulation and to accepted organization practice which are directed toward a centralization and continuity of authority for policy determination and general supervision of administrative activities.

"On the other hand, considerations relating to the volume or character of the trust business of a national bank, or the widely separated location of the banking offices at which such business is conducted, frequently provide reason for creating more than one trust investment committee, each of which would be limited in the scope of its activities to those administrative functions outlined in subsection (c), section 6 of Regulation F. It is in such cases, and where a distinct separation is maintained between directive and administrative responsibilities, that this ruling is applicable."

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"A problem which has been most troublesome during the administration of Regulation X is that concerned with



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"secondary borrowing, particularly as such borrowing may involve second mortgages, leases, sales contracts, and land contracts.

"It is the Board's understanding that some of the Federal Reserve Banks are giving a literal construction to section 4(b) of the regulation, and accordingly take the position that if a Registrant knows or has reason to know, at the time he considers extending credit, that there is outstanding, or will be outstanding, other credit so that the aggregate outstanding with respect to the property exceeds the maximum loan value permitted by the regulation, then section 4(b) would prohibit the proposed extension of credit by the Registrant. Other Federal Reserve Banks have construed section 4(b) as limiting the amount of credit which may be extended to any one borrower with respect to the property. Under this latter interpretation a Registrant could make a conforming loan to a borrower even though he knew that there was, or was to be, other credit outstanding to a borrower, other than Registrants' borrower, but in an amount not exceeding the maximum loan value of the property.

"The difficulty in construing section 4(b) has, of course, been complicated by transactions involving second mortgages, leases, land contracts, sales contracts, as well as perhaps other types of agreements.

"The Board has given careful consideration to the entire question in an effort to develop uniformity in interpretation as well as to reduce possible inequities to a minimum. Presently, the Board is giving consideration to issuing an interpretation as follows:

'For purposes of section 4(b) of Regulation X, a Registrant need take into consideration only credit which is, or is to be extended to the borrower applying for the loan, but the Registrant is prohibited by section 6(a) of the regulation from extending any credit to such borrower if the Registrant knows or has reason to know that, in order to evade the regulation, the borrower (whether or not a Registrant) subsequently is to extend credit which exceeds the maximum loan value of the property in a "sale" which may involve a second mortgage, sales contract, land contract, lease or otherwise.'

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"Before issuing an interpretation concerning this matter, we should like to have the benefit of your views and should appreciate your sending them to reach us by May 26."

Approved unanimously.

  
Secretary.