

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 5, 1952.

PRESENT: Mr. Evans, Acting Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 4, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on September 2, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on September 4, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

"Reurlet September 2. Board approves establishment of a branch by The Fidelity Bank, Durham, North Carolina, in the Liberty Warehouse Building, 600 Rigsbee Avenue, Durham, North Carolina, to be operated during the current tobacco marketing season covering approximate period September through December 1952, inclusive, and also approves reestablishment of such branch during each succeeding tobacco marketing season covering same period, subject to cancellation of such approval by the Board upon reasonable notice to the bank prior to beginning of such period in any year. The granting of the above approval is subject to the obtaining of formal approval of

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"appropriate State authorities and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to all legal aspects involved."

Approved unanimously.

Telegram to the Presidents of the Federal Reserve Banks of New York and Chicago, reading as follows:

"Please wire in time to reach Board by Wednesday morning, September 10, number of member banks indebted to your Bank in August distributed as follows according to number of calendar days indebted:

1. One day only
2. Two to five days
3. Over five days
4. Total number
5. Number indebted for five or more consecutive days
6. Maximum number indebted on any one day
7. Minimum number indebted on any one day

"Give figures for (a) reserve city banks, (b) country banks, each classified as to banks with total deposits on December 31, 1951 of (1) over ten million dollars and (2) ten million dollars or under, and (c) for central reserve city banks (not classified by size).

"Items 2 and 3 above should include both consecutive and non-consecutive days of indebtedness."

Approved unanimously, together with a telegram to the Presidents of all other Federal Reserve Banks requesting the same information except as to central reserve city banks.

Letter to Mr. R. L. Gordon, Jr., Vice President and Trust Officer, First and Merchants National Bank of Richmond, Richmond, Virginia, reading as follows:

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"This refers to your letter of May 12, 1952, transmitted through the Federal Reserve Bank of Richmond, requesting advice as to whether your bank may accept an assignment of a beneficiary's income from a participation in your common trust fund as collateral security for loans made to such beneficiary by your Commercial Department.

"As you know, Regulation F provides that if a bank, because of a creditor relationship or any other reason acquires any interest in a participation in a common trust fund under its administration, the participation shall be withdrawn on the first date on which such withdrawal can be effected. The purpose of this provision obviously is to preclude or minimize the development of conflicts of interest in the administration of common trust funds.

"The answer to your question therefore depends upon whether your bank, because of the loan by your Commercial Department to the income beneficiary, would acquire an 'interest' in a participation in the common trust fund.

"In the ruling of the Board published in the 1947 Federal Reserve Bulletin 980, to which you refer in your letter, the Board took the position that a loan was improper in view of the above-mentioned provision of Regulation F, where it appeared that the bank was entitled to resort to the 'principal' of the participating trust in order to collect the loan. That case did not involve the assignment of the beneficiary's income from a participation in the common trust fund. In the opinion of the Board, however, no valid distinction can be made between an assignment of the principal and an assignment of the income, having in mind the purpose of the provision of the regulation in question. If the bank holds collateral in the form of an assignment of the income, its capacity as fiduciary would be complicated by that of creditor and decisions of the bank in its management of the fund might be subject to the accusation, even though unjustified, of being motivated by creditor's rights rather than by a fiduciary's duty.

"In the circumstances, it is the Board's opinion that the acceptance of an assignment of a beneficiary's income in a participation in a common trust fund as collateral for a loan by the commercial department of your bank would weaken the fiduciary relationship and would result in the bank having an 'interest' in the participation in the common trust fund which would bring the loan within the intent and purpose of the prohibition of section 17(a)(2) of Regulation F.

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"The Board is also of the opinion that the use of an assignment which expressly states that under no circumstances would the assignee have an interest in the common trust fund by virtue of the assignment, and that the assignment would be effective only as to income after it actually had been received into the participating trust account, would not remove the bank's interest in a participation in the common trust fund."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Richmond, together
with the following letter to the
Presidents of all Federal Reserve
Banks:

"There is enclosed for your information a copy of the Board's letter of this date to a member bank with respect to the assignment of a beneficiary's income from a participation in a common trust fund as collateral security for loans made to such beneficiary by the bank's commercial department.

"This matter was the subject of the Board's letter of July 14, 1952, in which your bank was requested to express its opinion as to the propriety of this type of loan. Replies indicated that a large majority of the Federal Reserve Banks believe the making of such a loan would be improper and Regulation F should not be interpreted to permit a loan of this type. The Board concurs in this conclusion and appreciates the consideration given by your bank to this question."

Letter to the Honorable Preston Delano, Comptroller of the Currency, Washington, D. C., reading as follows:

"Reference is made to Mr. Jennings' letter of August 14, 1952, regarding the request of Honorable John W. McCormack, majority leader of the House of Representatives, for a list of bank embezzlements, if available, which have occurred during the last five years. In order to compile this information a request is made for a list of cases reported to the Department of Justice by the Board of Governors for the

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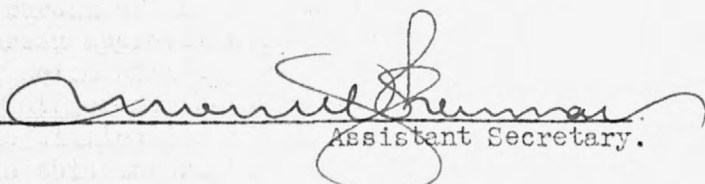
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"period July 1, 1947, to June 30, 1952.

"We have prepared for this purpose and enclose herewith a list of cases reported to the Department of Justice during the period specified, which may have involved possible embezzlements on the part of officers or employees of State member banks. This list shows the date of the report to the Department of Justice, the State in which the bank is located, and the amount if it was originally reported. Because of the confidential nature of this information it is not believed proper to disclose more specific detail on these cases.

"As you know reports are made to the Department of Justice at its request as soon as shortages are discovered and frequently some time elapses before definite responsibility and amounts involved are established. Therefore, this list should not be considered as representing in all cases definitely established instances of embezzlements on the part of officers and employees of banks."

Approved unanimously.


Assistant Secretary.