Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 27, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Masters, Assistant Director,
Division of Examinations

Prior to this meeting there had been circulated among the members of the Board a draft of letter for the signature of Governor Mills to Mr. T. Allen Glenn, Jr., President of the Peoples National Bank, Norristown, Pennsylvania, and President of the National Bank Division of the American Bankers Association. The draft of letter read as follows:

"This is with further reference to your letter of February 10, 1953, with regard to certain proposed changes in the Board's Regulation F and section 11(k) of the Federal Reserve Act which were discussed by you and other officers of the National Bank Division of the American Bankers Association when you visited my office on February 5, 1953.

"The suggestion was made that Regulation F be amended so as to permit national banks to invest trust funds in real estate mortgages by purchase from their own commercial departments, provided such mortgages have been acquired and earmarked for general trust investment and are sold to trust accounts within a prescribed limited period of time. Similar proposals have been considered by the Board in past years and on each occasion after a thorough study of the subject the Board has reached the conclusion that the regulation should not be so liberalized."
"While the suggested practice would provide a means for prompt and convenient investment of trust funds as they become available, there would seem to be presented the danger that the ready availability of mortgage loans earmarked for general trust investment purposes might in some cases result in a failure to give due consideration to the needs and purposes of a particular trust and to the suitability of available mortgage investments to such needs.

"As you know, it is an established principle of trust law that a trustee shall have no interest in the assets of a trust except as fiduciary. The Board's Regulation F and the Statement of Principles of the Trust Division of the American Bankers Association have long enunciated this principle with respect to self-dealing transactions. While the present proposal involves certain safeguards which would be helpful in meeting some of the administrative difficulties which might arise, there remains nevertheless an element of self-dealing which the Board would not feel justified in countenancing in its regulations, which, as you know, are applicable to all national banks exercising trust powers, including not only those that are fully cognizant of their fiduciary responsibilities but also some which may not always have such a zealous regard for the welfare of trust beneficiaries.

"You also propose that national banks be permitted to reduce the amount of securities required to be set aside by the commercial department with the trust department to secure uninvested trust funds deposited in the commercial department, in the amount of the protection now provided to trust funds under the Federal Deposit Insurance law. However, as pointed out in our discussions of the matter when you were here, an amendment to the law would be necessary to accomplish this purpose. Before expressing an opinion with respect to proposed legislation of this kind, the Board would wish to have the viewpoint of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, both of which would have an interest in such legislation; and it is assumed that you will wish to discuss the matter with them in the event you decide to pursue this matter further.

"It was a pleasure to meet with you and your associates and to discuss these matters with you."
In commenting upon the suggestions offered by Mr. Glenn and his associates, Governor Mills stated that the proposal to amend Regulation F, Trust Powers of National Banks, was patterned after Section 1111 of the Commonwealth of Pennsylvania Banking Code, which reads as follows, except that it was proposed that the period of holding by the commercial department of a national bank of assets acquired for general trust investment would be limited to six months and that the assets would be restricted to real estate mortgages:

Section 1111. Limitation upon Purchase or Exchange of Assets of Commercial Department.

A bank and trust company shall not directly or indirectly, purchase with funds held by it as fiduciary, or exchange for any real or personal property held by it as fiduciary, any asset of its commercial department, but this prohibition shall not apply, (1) in the case of bonds or other interest bearing obligations of the United States, of this Commonwealth, or of any county, city, borough, township, school district, or poor district of this Commonwealth; nor (2) in the case of assets of its commercial department earmarked for future trust investment at the time of acquisition by the commercial department, and purchased or exchanged, within one year after acquisition, with funds or for property held by it in its trust department; nor (3) in any other case otherwise specifically provided for by this act. A report shall be made monthly to the Board of Directors, and noted in its minutes, of all assets earmarked for future trust investment and all transactions relating thereto. A certified copy of such report shall be placed on file in the bank and trust company.

Governor Mills said that the law apparently had operated successfully in the State of Pennsylvania and that it was his impression that
Mr. Glenn, as a Pennsylvania banker, was thinking more in terms of his own bank and other national banks in that State than in terms of the country as a whole. He referred to the fact that a thorough analysis of a similar proposal was made by the Board in 1936, and again in 1938, and that it was the conclusion of the Board that too much of the element of self-dealing was involved to justify permitting the practice. Governor Mills went on to say that he did not think there was a sufficient need or demand for such an amendment to Regulation F at this time to warrant a liberalizing action on the part of the Board and that such action might lead to requests for a similar amendment, which would permit banks to accumulate marketable securities that would be eligible for trust investment pending the availability of investable funds.

Governor Mills then called upon Mr. Vest, who stated that he was inclined to agree with the letter as written, his only suggestion being that the Board might wish to obtain the comments of the Federal Reserve Banks before the letter was sent to see what their experience had been and the extent of the problem in the respective Reserve districts. He added, however, that he would not want to urge strongly that that be done. Like Governor Mills, Mr. Vest felt that if the Board should consent to the present proposal, it might receive requests for further exceptions from time to time.
Mr. Masters said that from the standpoint of practical considerations there was something to be said for the request that banks be afforded an opportunity to acquire desirable mortgages as they become available and earmark them for general trust investment. He went on to say, however, that the granting of such permission by the Board would run contrary to the fundamental principle that countenances no breach of the rule of undivided loyalty, and the question, therefore, was how far the Board would want to move, if at all, on the basis of practical considerations to breach that rule, which has been upheld by the courts over the years.

In commenting further on the matter, Governor Mills said that requests of this kind tend to be presented in good times, that the mortgage cycle was now at a peak, and that this might be the worst time to liberalize the regulation. He pointed out that the regulation was intended to protect not only the parties establishing trusts and the beneficiaries but the banks themselves.

Governor Robertson's comments were to the effect that the Board should never in any way lower the bars against self-dealing transactions.

Relative to the proposal that section 11(k) of the Federal Reserve Act be amended to permit national banks to reduce, in the amount of the protection now provided to trust funds under the Federal Deposit Insurance law, the amount of securities required to be set aside by the commercial department with the trust department to secure uninvested trust funds
deposited in the commercial department, Governor Mills said that the representatives of the American Bankers Association did not appear to be too much concerned and that he felt the proposed reply to Mr. Glenn spoke for itself.

Following further discussion, the letter to Mr. Glenn was approved unanimously in the form submitted.

At this point Messrs. Vest and Masters withdrew from the meeting.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on February 24, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on February 26, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Pursuant to the request at the meeting on February 2, 1953, there had been sent to the members of the Board prior to this meeting copies of the following:

Memorandum dated February 12, 1953, from Mr. Farrell, Chief of the Reserve Bank Budget and Expense Section, Division of Bank Operations, to Mr. Leonard, Director of that Division, presenting an analysis of a petition made by five member banks in the State of South Carolina and transmitted with a letter
dated January 30, 1953, from Senator Maybank, of South Carolina, to Chairman Martin, concerning the need for the establishment of a branch of the Federal Reserve Bank of Richmond in Columbia, South Carolina.

Memorandum dated February 20, 1953, from Mr. Leonard to the Board transmitting Mr. Farrell's analysis and setting forth certain comments with respect to the petition.

The matter was discussed informally in the light of a suggestion by Governor Vardaman, concurred in by Governor Evans, that the Board should proceed with a comprehensive study of all Federal Reserve Bank and branch territories from the standpoint of present-day conditions so that it would be prepared to deal with any matters such as the current petition if and when received and, if it proved to be desirable, to take steps toward changes in the district and branch territories.

Governor Evans suggested that the Secretary discuss with Mr. Leonard what information might be available from sources such as the Department of Commerce which would be pertinent to such a study and that consideration be given to what professional organizations might be equipped to undertake a study of that nature for the Board.

It was understood that the Secretary would discuss the matter with Mr. Leonard and that the petition for the establishment of a branch in Columbia, South Carolina, would be placed on the agenda for consideration at the meeting on March 2, 1953.

The meeting then adjourned. During the day the following additional
actions were taken by the Board, with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 26, 1953, were approved unanimously.

Memorandum dated February 24, 1953, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of John A. Bladen as Assistant Federal Reserve Examiner in that Division on a temporary indefinite basis, with basic salary at the rate of $5,060 per annum, and with official headquarters in Washington, D.C., effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated February 25, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Dorothy L. Rhoads as Clerk-Typist in that Division on a temporary basis for a period of two months, with basic salary at the rate of $2,950 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.
Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective March 1, 1953:

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<td>C. S. Barker, Federal Reserve Examiner</td>
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Memorandum dated February 12, 1953, from Mr. Sloan, Director, Division of Examinations, recommending that Grover C. Page, Assistant Federal Reserve Examiner in that Division, who will become 65 years of age on May 20, 1953, be retained in active service until December 31, 1953.

Approved unanimously.

Letter to Mr. Val Peterson, Acting Administrator, Federal Civil Defense Administration, reading as follows:

"This letter is in response to Mr. Wadsworth's of January 24, 1953, requesting the designation of a representative of the Board of Governors with whom your staff can discuss the problem of assistance to be provided by Federal agencies in the event of a major disaster. It is noted that you desire such designation prior to a conference which you plan to have with the heads of the affected agencies.

"Mr. Robert F. Leonard, Director of the Board's Division of Bank Operations, has been designated as the representative..."
2/27/53

"of the Board to participate in the staff discussions."

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

"In view of the recommendation contained in your letter of February 18, 1953, the Board of Governors gives its prior consent to the Hightstown Trust Company, Hightstown, New Jersey, to retire $10,000 of its preferred stock 'B' resulting in the reduction of a like amount in capital of the subject institution. Please advise the Hightstown Trust Company accordingly."

Approved unanimously.

Memorandum dated February 26, 1953, from the Division of Personnel Administration, recommending that the Board approve the showing of a film pertaining to the annual Red Cross drive in the cafeteria at 4:20 p.m. and 4:40 p.m. on March 10, 1953, and that employees be excused from their duties for the time necessary to see the film.

Approved unanimously.