

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 23, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Evans

Mr. Vardaman

Mr. Mills

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Sherman, Assistant Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Riefler, Assistant to the Chairman

Mr. Thomas, Economic Adviser to the Board

Mr. Leonard, Director, Division of Bank Operations

Mr. Vest, General Counsel

Mr. Young, Director, Division of Research and Statistics

Mr. Horbett, Assistant Director, Division of Bank Operations

Mr. Youngdahl, Assistant Director, Division of Research and Statistics

Pursuant to the understanding at the meeting yesterday, there had been distributed to the members of the Board copies of a memorandum dated April 22, 1953, from Mr. Thomas outlining the principal features of a suggested system of reserve requirements under which there would be only two classes of banks (reserve city and "country"), any bank willing to carry the higher reserves against interbank deposits specified in the plan could choose to be classified as a reserve city bank, and certain deductions for interbank balances and items in process of collection would be allowed from deposits in computing net deposits subject to reserve requirements.

4/23/53

-2-

At the request of Chairman Martin, Mr. Thomas commented on the suggested plan and pointed out differences between it and the so-called uniform reserve plan which was considered by the Board previously. He brought out that the plan was designed to meet some of the questions that arose during discussion of the uniform reserve plan in that it was intended to afford recognition to the correspondent banking system, it would maintain the reserve city classification on a permissive basis for purposes of prestige or other reasons, and it would permit a shift away from the present system of reserve requirements with a somewhat less drastic change in the relationship between classes of banks.

There followed a general discussion of the plan proposed by Mr. Thomas and how it would operate during which reference was made to certain administrative problems which might be encountered.

After commenting on the plan, Governor Robertson reiterated the view which he expressed at the meeting yesterday that the Board ought not to advocate any particular system of reserve requirements but that a comprehensive staff study should be instituted so that the Board might consider all of the factors involved and decide upon a plan which appeared to have the greatest merit. Thereafter, he thought, the Board might call in representative banker groups and state to them that there might come a time when it would be desirable to reduce reserve requirements and that the Board would like to know whether they would favor a different plan of reserve

4/23/53

-3-

requirements which might be put in effect at the time reserve requirements were reduced. The Board might then submit the plan which it favored and request the bankers to suggest any changes in it which they believed to be desirable. By this procedure he felt that it might be possible to take advantage of the desire within the banking fraternity for lower reserve requirements to enlist their support of legislation which would authorize a transition to an improved reserve requirement plan.

Other members of the Board agreed with Governor Robertson on the desirability of a study of the matter within the System but expressed doubt as to whether it would be expedient to consult with representatives of the banking fraternity until such time as the bankers solicited the support of the System for legislation.

Chairman Martin then suggested that Governor Mills be requested to prepare, with the assistance of Mr. Thomas and such other members of the staff as he might desire, a statement describing and setting forth the advantages and disadvantages of the various reserve requirement plans which had been proposed in the past with a view to further consideration of the matter by the Board.

There was agreement with Chairman
Martin's suggestion.

Consideration then was given to what reply should be made to the letter dated April 14, 1953, from Mr. Sproul, President of the Federal

4/23/53

-4-

Reserve Bank of New York, to which reference was made at the meeting yesterday, with which Mr. Sproul transmitted a brief of the New York Clearing House Association suggesting the elimination of the differential between reserve requirements for central reserve city and reserve city banks.

Following a discussion, it was agreed that Chairman Martin would discuss with President Sproul, when the latter was in Washington tomorrow to attend the meeting of the executive committee of the Federal Open Market Committee, the question whether a reply by the Board to the brief was called for at this time.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 22, 1953, were approved unanimously.

Memorandum dated April 20, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Woodley Boothe, General Mechanic in that Division, be accepted, effective as of the close of business May 1, 1953.

Approved unanimously.

Letter to Mr. Neely, Federal Reserve Agent, Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the requests contained in your letters of April 14, 1953, the Board of Governors approves

4/23/53

-5-

"the appointments of the following persons as Federal Reserve Agent's Representatives with salaries at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Shirley E. Winterburn	Federal Reserve Agent's Representative, Jacksonville Branch	\$3,420
W. C. Burson	Federal Reserve Agent's Representative, Birmingham Branch	4,800
Ralph Thurman	Federal Reserve Agent's Representative, Nashville Branch	4,300

"This approval is given with the understanding that Miss Winterburn and Messrs. Burson and Thurman will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of their duties. When not engaged in the performance of their duties as Federal Reserve Agent's Representatives they may, with the approval of the Federal Reserve Agent, or, in his absence, of the Assistant Federal Reserve Agent, and the Vice Presidents in charge of the respective Branches, perform such work for the Branch as will not be inconsistent with their duties as Federal Reserve Agent's Representatives.

"Miss Winterburn and Messrs. Burson and Thurman should execute the usual oaths of office which should be forwarded to the Board, together with advice of the effective dates of their appointments."

Approved unanimously.

Letter to Mr. Dearmont, Chairman and Federal Reserve Agent, Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of April 9, 1953, the Board of Governors approves the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated, effective April 1, 1953.

4/23/53

-6-

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
Edward H. Hoppe	Assistant Federal Reserve Agent	\$5,220
Richard O. Kaley	Alternate Assistant Federal Reserve Agent	5,580
<u>Little Rock Branch</u>		
William S. Dawson	Federal Reserve Agent's Representative and Branch Auditor	5,640
<u>Louisville Branch</u>		
Garland H. Parsell	Federal Reserve Agent's Representative and Branch Auditor	5,580
<u>Memphis Branch</u>		
Carl Ritzel	Federal Reserve Agent's Representative and Branch Auditor	5,700
Benjamin B. Monaghan	Federal Reserve Agent's Representative and Head of Personnel Department	5,800"

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of April 16, 1953, addressed to Mr. Sloan, the authorizations heretofore given to your Bank to designate Hoyt McCormick, Morris S. Moore, W. T. Henry and James L. Cauthen as special assistant examiners are hereby cancelled, and notation has been made in our records that the designation of John A. Steele, Jr., will be terminated on May 10, 1953.

"The Board approves the designation of Morris S. Moore, W. T. Henry, and James L. Cauthen as special assistant examiners for the Federal Reserve Bank of Dallas for the specific purpose of rendering assistance in the examination of State member banks only."

Approved unanimously.

4/23/53

-7-

Telegram to Mr. Knoke, Vice President, Federal Reserve Bank of New York, reading as follows:

"Your letter April 17, 1953. Board approves the opening and maintenance of account on your books in the name of The Bank of Korea subject to the usual terms and conditions upon which your bank maintains accounts for foreign central banks and governments.

"It is understood that if the opening of this account is approved you will attempt to obtain a Section 25(b) certification from the Department of State. It is further understood that you will, in due course, offer participation in this account to the other Federal Reserve Banks."

Approved unanimously.

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

"Enclosed are copies of revised pages 3 and 16 of the examination report form and revised forms F. R. 209 and 212 which have been approved by the Board of Governors for use upon receipt. A supply of the forms is being forwarded by parcel post. Additional supplies may be obtained from the Board's Division of Examinations upon request.

"The revision of these forms was discussed briefly at the recent Conference of Examiners, and in the interest of uniformity, it is suggested that each of the Reserve Banks follow the instructions outlined below in their preparation:

"Page 3 - Examination Report

"The new form provides for a change in the classification and capital blocks of this page, and includes space for listing gross valuation reserves. Only gross classifications and valuation reserves will be listed in the respective blocks.

"Reference to holdings of senior capital by the 'RFC' and 'Others' have been eliminated from the capital block, for the reason that few member banks now have 'RFC' issues outstanding. Holdings of senior issues should be listed in comments, item 5, page 'C' of the confidential section.

4/23/53

-8-

"Where a bank has outstanding capital notes, debentures or preferred stocks which require regular amortization or the setting up of sinking funds at stated periods, it is suggested that such requirements be outlined by comments immediately below the capital block.

"Several of the Reserve Banks suggested that unapplied valuation reserves should be added back to arrive at the total of adjusted capital. The new form does not provide for this treatment, however a space, ~~short~~ extended, which will show the total of such reserves is included within the capital block. It is intended that this will include the total of all unapplied reserves including securities valuation reserves, and will be net after adjustment for losses and 50% of gross doubtful classifications.

"No space has been provided for adding back any nonledger values. It is requested that none of these be listed in the open section of the report unless they are reported in call and earnings reports furnished to the supervisory authorities, or in statements of condition supplied to stockholders and other interested parties. Such items should continue to be listed on page D-(2) of the confidential section.

"Page 16 - Examination Report

"Reference to 'Schedule O' has been deleted from the section dealing with reports made by the banks to the supervisory authorities inasmuch as that schedule is obsolete.

"Form 209

"This form has heretofore been used only for the purpose of submitting analyses of national bank and independent State examination reports. It is now intended that it will also be used in connection with Federal Reserve examinations of State member banks. Except for changes outlined in this letter and necessitated by alterations in the form itself, the letter of August 11, 1952, concerning Form 209 will still be applicable for use in submitting analyses of national bank examination reports.

"It is requested that hereafter Form 209 be completed and accompany reports of Reserve Bank examinations of State member banks when they are forwarded to this office, except that no comments will be made in connection with the items 1 to 8, inclusive, appearing at the bottom of the page. These will be added by our Review Examiners following their analysis of each report.

4/23/53

-9-

"Some question has been raised by one or more of the Reserve Banks as to the date to be shown as the 'Examination Date' in the headings of this form. Our examination reports have always shown the examination to have been made as of the close of business on a certain date, while the reports of examination of national banks show the date and hour the examination commenced. It is suggested that in the case of State member banks the close of business date and in the case of national banks, the date the examination commenced be used. The population stated should be the latest census figures, if available.

"The condensed balance sheet is largely self-explanatory; however, it is suggested that overdrafts be included in the loans and discounts, Federal Reserve Bank stock in 'other assets', and dividends declared and not yet payable in 'other liabilities'. Any large items not provided for by the form but which are deserving of special treatment may be interlined; these might include such items as acceptances.

"The item 'Other' opposite 'Reserves deducted' will probably be rarely used. It should not include depreciation on fixed assets.

"Classified totals will be reported in their net amount after application of reserves. Reserves will be applied to assets to which they may be applicable classified as loss, to 50 per cent of such assets classified as doubtful, but not to any assets classified as substandard.

"Any senior issues of capital outstanding (preferred stocks, capital notes, etc.) will be listed in the capital block opposite 'Preferred Capital'. For the present, only unapplied loan valuation reserves, as used in calculating capital ratios, will appear opposite the word 'Add' in arriving at the adjusted capital structure.

"The 'Significant Changes in Capital Accounts' block will be used to show additions through sales of new stock, stock dividends declared, reductions in capital resulting from the retirement of senior issues, transfers to surplus, or other changes of a substantial nature.

"It does not seem necessary to comment on other items required by this form.

4/23/53

-10-

"Form 212

"Form 212 as revised calls for a 'Memorandum' on the reports of examination of State member banks made by the Federal Reserve Bank and should cover the information requested in the heading on this form. Blank sheets should be used and attached to this form when additional space is required for comments.

"The trust department rating should appear in the blank space opposite the words 'Trust Department' in the upper right-hand corner of the comments section.

"It will be noted item 3(b) refers to C or D ratings of trust departments. The 'D' rating is not now in use; however, it is contemplated that new procedures covering the rating of trust departments will soon be adopted. They will include a 'D' rating; consequently the 'D' has been included, although it will not be used until sometime in the future.

"General

"We find that all of the Reserve Banks are not using the same formula in computing the Capital-Risk Asset ratios appearing on page D(2) of the examination reports. It is suggested that hereafter these ratios be computed in the following manner: Unapplied loan valuation reserves will be added to total assets before deducting cash, Government securities, etc., to arrive at the net risk assets. The unapplied loan reserves (after deducting losses and 50% of doubtful) will be added to the capital account, and this amount will be used as the divisor in making all ratio calculations."

Approved unanimously.

Letter to Mr. L. A. Jennings, Deputy Comptroller, Office of the Comptroller of the Currency, Washington, D. C., reading as follows:

"As you know, the Federal Reserve Banks make preliminary tabulations of each item and sub-item of loans in Schedule A of reports of condition of all member banks in their districts, and furnish summaries of these data to the Board about a month after the call date is announced. On the basis of these summaries the Board issues a press release; supplementary tables are prepared for System use. Copies of the press release and tables are furnished your office; copies of those issued as of the last call date are enclosed

4/23/53

-11-

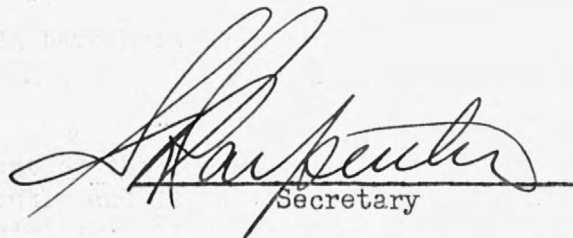
"for convenient reference.

"You will recall that the American Bankers Association and the Department of Agriculture have from time to time suggested informally that the bank supervisory agencies collect more frequent and more detailed data on agricultural loans from a sample group of member and non-member banks. In these discussions representatives of the bank supervisory agencies have suggested that perhaps the need for new reports might be avoided by more effective use of data already collected.

"As a result of such discussions and considerations, representatives of the American Bankers Association and Department of Agriculture recently suggested that the Board ask the Federal Reserve Banks to tabulate the call report loan items by States, and furnish the resulting preliminary summary figures of agricultural loans and farm real estate loans to the ABA and the Department of Agriculture. These State tabulations would not add appreciably to the work of the Federal Reserve Banks. Accordingly, the Board contemplates asking the Federal Reserve Banks to make such tabulations and furnishing the resulting summary figures, by States, to the ABA and the Department of Agriculture for whatever use they may wish to make of the data. Before doing so, however, the Board would like the concurrence of your office, since most of the reports from which the data would be tabulated are national bank reports.

"We shall appreciate your advice as to whether the contemplated tabulation and release of the loan data on a preliminary basis would be satisfactory to your office."

Approved unanimously.



Secretary