Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 16, 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. Vest, General Counsel
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Leach, Chief, Government Finance Section, Division of Research and Statistics

There was a general informal discussion of the prospective needs of the money market for reserves over the next several weeks and how the monetary and credit policies of the Federal Reserve System could best be served in the supplying of these reserves through open market operations, reduction of reserve requirements, and member bank discounts. No conclusions were reached but it was understood that the matter would be kept under continuous study by the members of the Board and its staff and would be discussed at the meeting of the executive committee of the Federal Open Market Committee on June 23, 1953.

During the discussion Governor Evans, who was to leave on a vacation tomorrow, indicated that he favored a policy of providing reserves through open market purchases of Treasury bills and that he would also favor a reduction in reserve requirements of perhaps two percentage points for central reserve city banks and one percentage point for other member banks. In discussing why he would support a reduction of reserve requirements for all member banks, Governor Evans referred to the severe drop in the wheat market yesterday and predicted that this would cause apprehension in the rural areas. He said that if this apprehension were to spread it would be difficult to predict what would occur throughout the country, and he felt that the point had been reached where the System should make important decisions as to what policy it should follow. Governor Evans expressed the further view that a reduction in the reserve requirements of smaller member banks would have a salutary psychological effect in indicating that the Board was aware of the possibility of an approaching down-turn in business conditions and was prepared to take appropriate policy actions.

In response to an inquiry by Governor Vardaman, Governor Robertson said that he had under consideration the question whether the bank supervisory authorities should make a statement of their intention to continue to adhere to the announced policy regarding the valuation of Government securities on the books of commercial banks, that he had discussed the matter with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and that those agencies preferred to let the word be spread in other ways. The Comptroller of the Currency, he pointed out, had already made two public references to the matter. Governor Robertson added that the banking authorities of two states, New York and Mississippi, had indicated that they would like to follow a different course and were considering action to require banks under their supervision to provide for unusual depreciation in their Government security portfolios. Governor Robertson said it might be that the Board should consider making its position known, as the Comptroller of the Currency had done, possibly through the issuance of an announcement.

With reference to the question of whether the Board should issue any statement on System policy with respect to permitting banks to borrow from the Federal Reserve Banks on the collateral of Government securities at par, Governor Robertson said that the matter had been under discussion but that a draft of statement had not yet been prepared. If the Board so desired, he said, he would proceed with the preparation of a draft and submit it to the Board for consideration. Governor Robertson felt that there was merit to the view expressed by Governor Mills during the general discussion earlier in the meeting that except for the differential in rates, the Reserve Banks should treat applications from nonmember banks for loans on Government securities on substantially the same basis as those received from member banks. He stressed, however, that care should be exercised to avoid creating an impression that the Federal Reserve Banks were willing to lend automatically to any bank at any time on Government securities at par.

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 June 15, 1953, were approved unanimously.

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

"In accordance with the request contained in your letter of June 11, 1953, the Board approves the reappointment of John L. Nosker as an examiner for the Federal Reserve Bank of Richmond.

"Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Memorandum dated June 5, 1953, from Mr. Young, Assistant Counsel, reading as follows:

"Mr. Murff's letter of June 1, 1953 to the Director of the Division of Personnel involves the question of the holding of public office by two employees of the Federal Reserve Bank of Dallas.

"One, Mr. Roy E. Maley, either is or has been (Mr. Murff's letter leaves some doubt on this point) Chairman of the Zoning and Planning Board of the City of West University Place, a suburb of Houston. The office is appointive and requires only a few hours per month for which no compensation is paid.

"The other, Mr. W. R. Stockwell, is a Trustee of the South San Antonio Independent School District, an elective office. The term of office is three years and Mr. Stockwell devotes approximately six hours a month to this work for which no compensation is received.

"On the basis of the information supplied by Mr. Murff and after an examination of the provisions of the Texas Statute relating to these offices, it is my view that these offices do not come within the purview of the Board's resolution of December 23, 1915 relating to the holding of public office. At any rate since the Dallas Reserve Bank has not requested a ruling, no action would seem to be required by the Board."

Approved unanimously.

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

"This refers to your letter of June 5, regarding the penalty of $494.20 incurred by the Citizens National Bank, Waco, Texas, on a deficiency in its reserves for the period ended May 15, 1953.

"It is noted that the deficiency resulted from the fact that the bank was closed during the period May 12 to 19, inclusive, because of the imposition of martial law in the city of Waco, following the devastation of a large portion of the city by a tornado; and that the bank has an unusually good reserve record and has had no prior deficiencies in 1953 nor in 1952 and 1951.

"In these circumstances, the Board is entirely agreeable to your waiving the assessment of the penalty."

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C. (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency), reading as follows:

"Reference is made to a letter from your office dated May 15, 1953, enclosing photostatic copies of an application to convert The Bank of Tioga, Tioga, North Dakota, into a national banking association and requesting a recommendation as to whether or not the application should be approved or disapproved.

"Information contained in a report of investigation of the application by the Federal Reserve Bank of Minneapolis indicates "generally favorable findings with respect to the factors usually considered in connection with such applications, except as to the adequacy of the capital structure. While the capital structure as proposed in the application would seem adequate at present, there may be justification for requiring some additional capital in the light of the anticipated expansion of the bank's business and its proposed increase in investment in fixed assets. It is assumed that this question will be resolved to your satisfaction, and, therefore, the Board recommends approval of the application.

"The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire."

Approved unanimously.

Secretary