Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 29, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Vardeman
Mr. Mills
Mr. Robertson
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Cherry, Legislative Counsel

Mr. Cherry presented a review of legislative developments of interest to the Federal Reserve System during which he referred to a letter dated June 24, 1953, from the Clerk of the Senate Banking and Currency Committee requesting a report by the Board on Bill S. 2180, introduced by Senator Beall, of Maryland, to authorize the Federal National Mortgage Association to exchange mortgages held by it for Government bonds under certain conditions. Mr. Cherry said he had inquired of the Clerk whether this was more than a routine request for the Board's views and that the Clerk advised him that the Committee definitely wanted a report from the Board. Mr. Cherry also inquired whether the Board would have time to clear its report with the Budget Bureau and was advised by the Clerk to get in touch with him again when the Board's reply was ready, at which time he would have some idea as to
the Committee's schedule for taking up the bill.

Following a discussion, it was understood that the staff would prepare a draft of report on the bill for consideration by the Board.

Governor Vardaman referred to previous informal discussion by the Board of comments made by Senator Eastland, of Mississippi, regarding the refusal of the Memphis Branch of the Federal Reserve Bank of St. Louis to make an advance against Government securities at par value to a non-member bank in Mississippi, and inquired whether further consideration had been given to a public announcement of System policy in lending to nonmember banks on Government obligations.

Governor Robertson responded that he had discussed the case mentioned by Senator Eastland with Mr. Johns, President of the Federal Reserve Bank of St. Louis, that Mr. Johns had written letters to each of the branches of the St. Louis Bank setting forth the present attitude of the Bank with respect to nonmember bank borrowing from a Federal Reserve Bank, and that Mr. Johns also had outlined these principles in a letter to him (Governor Robertson) dated June 12, 1953, a copy of which had been sent to all of the members of the Board. Governor Robertson said that consideration was being given to a reply to Mr. Johns and that a draft would be submitted to the Board. He pointed out that three problems appeared to be involved, i.e., whether advances should be made to nonmember banks on Government
securities at par value, the rate which nonmember banks should be charged on any such advances, and the conditions under which advances to nonmember banks would be justified.

Governor Vardaman stated that he felt the Board's position should be clarified in view of the discussion incident to Senator Eastland's comments. He also said that while he agreed that borrowing from the Federal Reserve Banks was a privilege rather than a right and each Federal Reserve Bank should have the right to determine whether a specific discount or advance should be made, he felt strongly that the principle of lending on Government securities at par should apply to member and nonmember banks alike. In view of the comments which had been made, he felt that the Board should consider making a public announcement of its views.

There ensued a discussion of the Board's statement of September 1, 1939, that the Federal Reserve Banks were prepared to make advances to member and nonmember banks on Government obligations at par at the rates prevailing for member banks; the Board's statement of December 8, 1941, which mentioned that the Reserve Banks stood ready to advance funds on United States Government securities at par to all banks; and the establishment in 1946 of higher rates on advances to nonmember banks secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act than applied to advances to member
banks secured by such obligations.

At the conclusion of the discussion it was understood that Governor Robertson would consider the matter further and make a recommendation to the Board.

Mr. Leonard referred to the authorization which the Board gave to the Federal Reserve Bank of San Francisco on December 23, 1952, to obtain bids for a building addition and alterations program at the Los Angeles Branch, and to a letter dated June 23, 1953, from Mr. Mangels, First Vice President of the San Francisco Bank, requesting approval of a total expenditure for this purpose of approximately $4,678,000, which amount would include a $200,000 allowance for contingencies. Mr. Mangels' letter stated that if the Bank placed an order for structural steel by July 1, the steel would be scheduled for August rolling, that otherwise there might be a delay of several months, and that in the circumstances the Bank would like to have authorization by telegram not later than today. The letter also stated that the directors of the Los Angeles Branch had recommended that the Reserve Bank be authorized to proceed with the work, that the head office directors had not met to discuss the tabulation of bids in detail, but that information had been sent to each director by letter for his comments and suggestions. A telegram dated June 26 from Mr. Earhart, President of the Reserve Bank, stated that the approval of the head office directors had been received.
Mr. Leonard said that the cost of $4,478,000 on the basis of bids which the Reserve Bank proposed to accept compared with an estimate of approximately $3,835,000 submitted by the Bank in October 1952. He then summarized the reasons for the increase, his statement being based on the analysis contained in a memorandum dated today from Mr. Daniels, Chief of the Reserve Bank Operations Section in the Division of Bank Operations.

In further comments, Mr. Leonard described the reasons for providing an allowance for contingencies and indicated to what extent such an allowance had been provided and utilized in the case of other branch building programs. Mr. Leonard also brought out that an addition to the Los Angeles Branch had been under active consideration since 1945 and that there was an urgent need for the construction.

Following a discussion, during which Mr. Leonard obtained and exhibited to the Board a sketch of, and the plans for, the proposed addition to the Los Angeles Branch building, unanimous approval was given to a telegram to Mr. Mangels reading as follows:

"Referring your June 23, 1953 letter and Mr. Earhart's June 26 telegram, Board approves acceptance of bids for Los Angeles Branch building addition and alterations program as outlined in your letter, and authorizes a total expenditure of approximately $4,678,000 for this purpose, which amount includes a $200,000 allowance for contingencies. Understand that such allowance will permit making minor changes and expenditures without prior submission to Board but that any material changes involving additional expenditures of $10,000 or more will be submitted for Board's prior consideration."
Governor Robertson referred to the comment in the June 27, 1953, issue of the weekly news service, Reporting on Governments, edited by S. F. Porter, to the effect that there had been "an adroit leaking" of the news of last week's reduction in reserve requirements of member banks before the public announcement was made. He said that he had been looking into this matter, that he had been told how the leak occurred, and that when he had obtained additional information, he would bring the matter to the attention of the Board.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Chairman Martin and Governor Evans present:

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

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

"Reference is made to your correspondence with The Schenectady Trust Company, Schenectady, New York, copies of which you forwarded to us for our information, regarding the proposed removal of the Union Street Branch from its present location at 1718 Union Street to a new location at 1614-1622 Union Street in Schenectady.

"The Board concurs in your opinion that this change would be a mere relocation of an existing branch in the immediate neighborhood, and, therefore, the Board's approval is not required."

Approved unanimously.
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Letter to Mr. Wotawa, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of June 23 regarding the penalties of $56.46 and $44.63 incurred by the First National Bank, Bethany, Missouri, on deficiencies in its reserves for the periods ended May 15 and May 31, 1953.

"It is noted that the deficiencies were attributable to new help in the subject bank having been assigned to the supervision of the maintenance of reserves in the absence of the Cashier, who was taking his first vacation in nine years; that in the reserve computation period ended June 15, 1953, the member bank had excess reserves of about $700,000; and that it has had an excellent record, with only eight deficiencies in its reserves since becoming a member in October 1914, and the last penalty assessment was in 1946.

"In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in both of these cases."

Approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors hereby extends to September 1, 1953, the time within which the Home Bank (formerly Compton Commercial and Savings Bank), Compton, California, may establish and operate a branch at Redondo Beach, California.

"The above action is taken in response to your letter of June 18, 1953."

Approved unanimously.

Letter to the Board of Directors, The Bank of Atchison County, Rock Port, Missouri, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, 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.

Approved unanimously, for transmittal through the Federal Reserve Bank of Kansas City, together with a letter to Mr. Leedy, President of the Reserve Bank, containing the following paragraph:

"It is noted that the capital of the applicant bank was $40,000 at the time of examination for membership, whereas the amount required for its admission is not less than $50,000, but that steps have been taken to increase capital to $80,000 by means of a stock dividend payable from undivided profits. It is assumed that this transaction will be completed and that the bank will have not less than the required amounts of both capital and surplus at the time of admission to membership."