Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 17, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, 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. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel

There was presented a draft of letter to Mr. Deming, First Vice President of the Federal Reserve Bank of St. Louis, prepared in response to his letter of July 3, 1953, regarding the eligibility as collateral for advances under paragraph 8 of section 13 of the Federal Reserve Act of bonds issued by local housing authorities. The draft had been in circulation and Governor Vardaman had raised a question concerning the wording of the last paragraph.

Following a discussion, the letter, revised to clarify the point raised by Governor Vardaman, was approved unanimously in the following form:

"Your letter of July 3, 1953, refers to an inquiry you have received regarding eligibility as collateral for advances under paragraph 8 of section 13 of the Federal Reserve Act of bonds issued by local Housing Authorities under financial assistance contracts between local Housing Authorities

"and the Public Housing Administration as authorized by the provisions of the U. S. Housing Act of 1937, as amended by the Housing Act of 1949.

"The specific bonds covered by the inquiry are 2-7/8% bonds recently issued by the Housing Authorities of the cities of Covington, Owensboro and Hopkinsville, Kentucky.

"You state that it is your view 'that the subject bonds are not obligations of the United States of the type set out in paragraph 8 of Section 13 (nor the specified obligations of the Government instrumentalities therein enumerated) and further that they are not direct obligations of the United States as the term is used in paragraph 13 of Section 13 and, therefore, are not eligible as collateral to advances to member banks under the section of the law mentioned. It is recognized, however, that these bonds could be considered under Section 10(b) of the Act.'

"The Board agrees with your views regarding the eligibility of the subject bonds under the specified provisions of the Federal Reserve Act. While, as you indicate, the provisions of the eighth and thirteenth paragraphs of section 13 do not include these bonds, section 10(b) provides authority pursuant to which a Reserve Bank may make advances on these bonds in accordance with the conditions applicable under that section."

Chairman Martin stated that he had received a telephone call from Deputy Chairman Smith, of the Federal Reserve Bank of Dallas, in which Mr. Smith stated that he hoped the Board would give prompt approval to the salaries fixed by the directors of the Dallas Bank for officers of that Bank as submitted in President Gilbert's letter of July 13. Chairman Martin said that he informed Mr. Smith that the Board had approved the salaries on July 15, with the understanding that if the directors wished to modify any of them in connection with a recasting of the ranges to provide a maximum limit of $20,000 for officers other than the President

and First Vice President, the Board would be glad to consider the matter further. Chairman Martin went on to say that Mr. Smith also brought up the question of the effective date of the increased salaries, stating that Chairman Parten of the Dallas Bank had been under the impression that if the directors acted on the salaries under the new salary administration plan at their meeting on July 9, the salaries would become effective July 1. Chairman Martin said he told Mr. Smith that the question of the effective date had been discussed by the Board, that the Board had agreed that salaries approved under the new plan would become effective at the beginning of the pay roll period starting nearest the date on which the Board of Governors approved the salaries, that he did not think the Board would wish to revise its position, but that he would bring it to the attention of the members of the Board.

None of the members of the Board who were present indicated that they would wish to change the understanding outlined by Chairman Martin with respect to effective dates for salaries of officers for the Federal Reserve Banks.

Chairman Martin stated that he had also received a telephone call from Chairman Crane, of the Federal Reserve Bank of New York, regarding the Board's letter of July 10, 1953, informing Mr. Crane of the Board's decision that the maximum of the range for the top group of officers other than the President and the First Vice President at the New York

Reserve Bank should, for the present, not exceed $28,000 per annum, and that Mr. Crane wished to have all members of the Board of Directors of the New York Bank come to Washington for the purpose of discussing the matter with the Board. Chairman Martin said that following a discussion with Mr. Crane it was understood that he and four other members of the Board of Directors would come to Washington on July 28, 29, or 30, if that time was convenient for the members of the Board.

Governor Robertson noted that he would be on vacation at that time, but all of the other members of the Board who were present stated that they would be available for a meeting on one of the days mentioned. It was understood that Chairman Martin would arrange a meeting with Mr. Crane in the light of the foregoing discussion.

Mr. Leonard, Director, Division of Bank Operations, joined the meeting at this point.

Before this meeting there had been sent to the members of the Board a memorandum dated July 14, 1953, from Mr. Bryan, President of the Federal Reserve Bank of Atlanta, explaining reasons for the action of the Board of Directors of the Bank in increasing, subject to the Board's approval, from 3 to 3-1/2 per cent the rate on advances under the last paragraph of Section 13 of the Federal Reserve Act. The memorandum said that the Bank would also act administratively to limit such advances to a maximum of thirty days, subject to renewal under appropriate circumstances,

and to provide that the securities must be in the physical custody of the Atlanta Reserve Bank. Mr. Bryan's memorandum indicated that the Atlanta Bank recently had received two informal requests for advances under this paragraph, one from a nonmember bank and one from a nonbanking corporation, that in neither case had the applicant been denied credit from normal and customary sources, and that in both cases it appeared the major objective was to borrow on long-term Government bonds at par. The memorandum went on to say that the requests had been disposed of by the explanation that the Atlanta Bank would prefer not to make such loans unless the borrowing was of an emergency nature and the borrower had been declined credit from his normal and customary sources. This was not felt to be a satisfactory general way of handling such requests, however, and the executive committee of the Atlanta Bank, after careful consideration had concluded that the rate on advances under the last paragraph of section 13 should be increased to 3-1/2 per cent for the following reasons set forth in Mr. Bryan's memorandum:

> "1. It seemed to the Executive Committee that a rate should be established at a level sufficiently high that, though it is not preclusive, clearly signalled the circumstance that the Federal Reserve Bank is not soliciting loans of this type at the present time. It seemed to us that the 3-1/2 percent rate would have such an effect. Since, moreover, the main attraction of borrowing from us, particularly in the case of nonmember banks, would seem not to be a rate matter but the ability to borrow at par, it seemed to the Executive Committee that any tendency to, so to speak, 'sell the bonds' to the Federal by borrowing at par should be discouraged by a clear administrative directive that the loans are for short term only.

"2. The Executive Committee considered at length the question as to whether or not the Federal should meet the situation by lending less than par and requiring a maintained margin. After considering such a possible procedure, it seemed both to the Executive Committee and to the officers here that such a course, while effective, would have far more disadvantages than advantages. The chief disadvantage would be that our whole policy of lending at par to member banks would be called into question, and we might well create a spirit of uneasiness at this time when member bank portfolios in nearly all cases exhibit some degree of depreciation.

"3. The Executive Committee also considered whether or not we should follow a policy of freely lending to nonmember banking institutions. This is a difficult problem, but the Executive Committee and officers both felt that a policy of free lending to nonmember institutions should be confined to periods of war, grave national emergency, and situations in which the Federal could be temporarily helpful in avoiding bank disorder in some particular community or locality.

"(a) One major consideration in the foregoing conclusion is that nonmember banks have chosen to remain nonmembers for reasons that seemed to them good and sufficient -- generally, of course, to avoid some of the obligations of membership. The member banks, on the other hand, have assumed considerable burdens and responsibilities in connection with their membership, and have stayed with us through the heat of the day. If we now follow the policy of making little or no distinction between membership and nonmembership, at a time when borrowing has become a valuable privilege, then we have created a fundamental inequity. We would effectively destroy the chief argument for membership.

"It can be argued, of course, that the conception of membership or nonmembership is not proper to central banking. I think all of us here would be willing to concede that the idea of member banks is peculiar to the Federal Reserve System and would be willing open-mindedly to listen to argument that it should be abolished. However, the idea of membership and nonmembership grew out of the dual banking system, is integral to the Federal Reserve Act in all of its aspects, and to abolish that idea would require a fundamental rewriting of the whole Act. It did not seem to us that we should, in effect, amend

"the Federal Reserve Act and abolish the fundamental distinction between membership and nonmembership by indirection or inadvertence.

"(b) One problem of free lending to nonmembers, perhaps not generally appreciated, is the fact that in a good many instances the city correspondent banks, as they come to dealing with credit applications by their nonmember correspondents, are endeavoring at this time to effect management reforms in the interest of sound banking and sound administration of credits, and against speculative over-expansion. If we now adopt a policy at the Federal of free lending to nonmember banking corporations, in my judgment and the judgment of the Executive Committee, we will generally not have the effect of promoting careful and prudent banking but its opposite, for the nonmember banks who will come to us will be, for the most part, those who wish to avoid some phase of their normal, managerial responsibilities related to obtaining credit from their usual correspondent banks. Something of the same sort will prevail in the case of the usual nonbanking applications that we will get at this time.

"4. The Executive Committee also considered whether it would be better to leave our rate as is, simply relying on the ability of the Reserve Bank, when confronted with an application that it did not want to make, to find reasons for not making the loan. It seemed to us that such a procedure ran the risk of being arbitrary and unsatisfactory, both to the applicant and the Reserve Bank. It seemed to us less than desirable to publish a competitively attractive rate and then to develop reasons, when confronted with an application, why we were unwilling to do business on the basis of such a published rate. Rather, it seemed to us preferable to signal our lack of interest in such loans by a non-competitive rate and by uniform and, though not prohibitive, unattractive maturities."

Governor Vardaman stated that he felt this proposal for a change in rate under section 13 should be considered in conjunction with the letter which President Johns of the St. Louis Bank had written Governor Robertson under date of June 12, 1953, concerning the refusal of the Memphis Branch of that Bank to make a loan to a nonmember bank secured by Government obligations, at par, which had been discussed by members of the Board on June 29, 1953.

Governor Vardaman felt that the approach of the Atlanta Bank was wrong and that the Federal Reserve should hold open the door at a penalty rate for advances to nonmember banks on United States Government securities. He said that he could see no objection to loans being made to borrowers other than member banks on those terms, when the loans were justified in the course of business of the prospective borrowers.

In response to a question concerning advances under the last paragraph of section 13, Mr. Leonard stated that at the present time the rate on such advances was 3 per cent at 8 of the Reserve Banks and 2-3/4 per cent at 4. The most recent borrowing reported under this section was in December 1947 at the Federal Reserve Bank of Minneapolis when a $500,000 loan was made for 15 days to a nonmember bank.

Mr. Vest said that the provision for such advances was inserted in the Federal Reserve Act on March 9, 1933, and that it was intended for use at times of pressure when credit was not available from other sources or at times of national emergency.

Governor Robertson stated that he agreed very closely with the views expressed in Mr. Bryan's memorandum and those which Mr. Johns had expressed in connection with the denial by the Memphis Branch of a loan under this section, that in his opinion there should be a distinction between credit granted to member banks and to others, and that if a nonmember bank faced a critical situation and needed credit assistance, the

Reserve Bank should stand ready to use this section promptly. Mr. Bryan's memorandum indicated that the Atlanta Bank stood ready to make advances under such circumstances.

Governor Mills said that he would recommend approval of the proposed rate increase which would also imply approval of the administrative procedures indicated in Mr. Bryan's memorandum. He felt that the approach of the Atlanta Bank was flexible and that the Bank would look at each credit application on the basis of the circumstances involved.

Governor Vardaman said that he felt the rate was less important than the other points involved, that if the Board could approve the rate without implying either approval or disapproval of anything else in Mr. Bryan's memorandum, he would concur in that action.

Chairman Martin stated that although the only specific point submitted to the Board for approval was the rate, he did not think the Board could approve the rate without implying that it also approved the approach regarding such advances, outlined in Mr. Bryan's memorandum.

In response to a question from Governor Vardaman as to whether approval of the Atlanta rate would imply approval of the approach taken in Mr. Johns' letter of June 12 to Governor Robertson, in which Mr. Johns had indicated strong feeling that the Reserve Bank should distinguish between credit accommodation to member and nonmember banks, Governor Robertson stated that the letter from Mr. Johns was addressed to him individually,

that Mr. Johns knew the matter had been discussed but that no action by the Board with respect to the views expressed therein had been taken. Governor Robertson emphasized, however, that he agreed with the approach in Mr. Johns' letter as well as with the approach of the Atlanta Bank.

Governor Vardaman stated that he had not intended to imply that there should be no distinction between advances to member banks and others, that the value of membership in the Federal Reserve System should always remain quite distinct, but that he felt strongly that the Federal Reserve Banks should stand ready to make loans to both nonmember and member banks for bonafide purposes on United States Government securities at par, although the rate for nonmembers would not necessarily be the same as for members.

Thereupon, upon motion by Governor Szymczak, unanimous approval was given to a telegram to President Bryan, reading as follows:

"Reurtels July 9 and 16, Board approves effective July 20, 1953, rate of 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram July 16."

There were then presented 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 Bank of St. Louis on July 13, by the Federal Reserve Bank of San

Francisco on July 14, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on July 16, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Vest stated that he had received word this morning from Mr. Goodwin, Assistant Counsel of the Federal Reserve Bank of Philadelphia, that the United States Court of Appeals for the Third Circuit had filed an opinion yesterday on the petition by Transamerica Corporation to review the Order of the Board of Governors issued on March 27, 1952, under Section 7 of the Clayton Act requiring Transamerica to divest itself of ownership of stocks of various banks named in the Board's Order. He said that he did not yet have a copy of the opinion but that he understood that while the court upheld the jurisdiction of the Board, it had set aside the Order on the grounds that a violation of Section 7 of the Clayton Act had not been proved. Mr. Vest noted that the decision of the Court was unanimous, adding the comment that the Board had 90 days within which to decide whether to appeal the decision.

Chairman Martin suggested that copies of the opinion be furnished all members of the Board promptly with a view to considering the decision at a later meeting.

Governor Robertson suggested that during the period in which he would be absent on vacation, the Board authorize Governor Mills to handle matters relating to the supervision and examination of State member banks

and various other assignments for which he had been given responsibility for primary consideration at the meetings of the Board on April 24 and May 1, 1952. He also suggested that during this period the Board authorize the Secretary to enter in the minutes approvals of appointments of examiners and assistant examiners and designations of special examiners and special assistant examiners, when approved by Governor Mills.

Governor Robertson's suggestion was approved by unanimous vote.

At Chairman Martin's request, Messrs. Riefler and Thomas reviewed recent developments in the Government securities market.

Thereupon the meeting adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Evans present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 16, 1953, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointment, effective upon the date of assuming duties

Name and title	Division	Type of appointment	Basic annual salary
Vivian C. Rosenson, Clerk, Regional Research Section	Research and Statistics	Temporary indefinite	$3,030

Change in status of appointment

John M. Pope, Guard, Division of Administrative Services. From temporary (two months) to temporary indefinite, with no change in basic annual salary at the rate of $2,750, effective July 27, 1953.

Salary increases, effective July 19, 1953

Name and title	Division	Basic annual salary From	To
	Board Members' Offices		
Doris I. Abell, Stenographer		$3,660	$3,785
	Office of the Secretary		
Diane K. Vigeant, Minutes Clerk		2,950	3,175
	Research and Statistics		
Rose E. Cornish, Clerk		3,430	3,575

Approved unanimously.

Letter to the Board of Directors, American Trust Company, San Francisco, California, reading as follows:

"The Board of Governors approves the establishment and operation of a branch by American Trust Company, in the shopping center known as Country Club Centre, such branch to be located at the southwest corner of El Camino Avenue and Watt Avenue, Sacramento County, California, provided the branch is established within six months from the date of this letter."

Approved unanimously, for transmittal through the Federal Reserve Bank of San Francisco.

Letter to the Board of Directors, American Trust Company, San Francisco, California, reading as follows:

"The Board of Governors approves the establishment and operation of a branch by the American Trust Company, San Francisco, California, in Hayward, California, such branch to be located in the vicinity of 'A' Street and Foothill Boulevard in downtown Hayward, provided the branch is established within six months from the date of this letter."

Approved unanimously, for transmittal through the Federal Reserve Bank of San Francisco.

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

"Reference is made to your letter of June 30, 1953, submitting and recommending approval of an application of the Security Trust & Savings Bank of San Diego, San Diego, California, to establish a branch in Vista, California.

"The Board has carefully reviewed the pertinent facts and found it a very difficult case to decide. However, it has concluded that the application should be denied as it does not appear that the need for the additional facility is sufficiently great to warrant subjecting the small independent bank now operating in Vista to the competition of a larger institution. It was reluctant to reach this conclusion in view of the allegation that there have been negotiations looking toward the sale of this small bank to one of the large branch banks. Nevertheless, it does not feel that it should approve the injection of competition by a large institution the result of which might be to jeopardize the well-being of an institution already operating in the community.

"The Board's position might be different if the situation were that a large bank had a branch operating in Vista or if this application before it were one requesting approval of the organization of a small independent bank with satisfactory sponsorship and management, because it considers reasonable competition generally to be desirable, beneficial, and in the public interest."

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency) reading as follows:

"Reference is made to your letter of June 1, 1953, enclosing a photostatic copy of an application to organize a national bank at Flushing, Ohio, under the title of Citizens National Bank of Flushing and requesting a recommendation as to whether or not the application should be approved.

"We have received a report of investigation of the application made by the Federal Reserve Bank of Cleveland setting forth information with respect to factors usually considered in connection with such applications. While it appears that the proposed capital structure of the bank would be adequate, the Reserve Bank feels that the needs of the community are met by the existing bank facility and has serious doubt that the operation of the proposed new bank would be profitable. Indications of personal animus between individuals as a factor prompting the proposal to organize the new bank were noted as well as the possibility of friction between parties presently interested in the organization. While two of the proposed directors, who will also serve as inactive officers, have had banking experience, the operating officer has not been named. In the circumstances, the Board would not recommend 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.

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

"By the Board's letter of May 29, 1953, you were notified of the adoption of Amendment No. 12 to Regulation U, effective August 1, 1953, relating to 'redeemable securities' of open-end investment companies.

"As you know, a principal provision of the amendment is that a bank loan for the purpose of purchasing or carrying a 'redeemable security' issued by an 'open-end company' as defined in the Investment Company Act of 1940, whose assets

"customarily include stocks registered on a national securities exchange, shall be deemed under the regulation to be a loan for the purpose of purchasing or carrying a stock so registered.

"The amendment also provides that in determining whether or not a security is a 'redeemable security', a bank may rely upon any reasonably current record of such securities that is published or specified in a publication of the Board of Governors. This, of course, adopts the same procedure as that specified in the regulation for determining whether or not a security is a 'stock registered on a national securities exchange', and in the past the Board has published a 'List of Stocks Registered on a National Securities Exchange'. This publication has now been revised and expanded to include also a list of 'redeemable securities' of the type covered under the regulation by Amendment No. 12 thereto.

"Copies of the publication, as revised and expanded, are being sent to your Bank under separate cover for distribution, as indicated in the Board's letter of May 29. In this connection, you may wish to consider the desirability of enclosing to each recipient of the new publication a note of explanation along the lines contained in this letter."

Approved unanimously.

Secretary