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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 18, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Boothe, Administrator, Office of Defense Loans
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel

Governor Vardaman stated that in accordance with the understanding at the meeting on September 16, 1953, there was a meeting in his office yesterday afternoon with representatives of General Services Administration to discuss the proposed use of the Federal Reserve Banks as fiscal agents of General Services Administration in connection with defense loans made pursuant to section 302 of the Defense Production Act of 1950, as amended. Those present from General Services Administration included Messrs. Max Medley, Comptroller; Maxwell H. Elliott, General Counsel; and P. W. Jordan, Director, Credit and Finance Division, while the Board was represented by Governor Vardaman and Messrs. Boothe, Hackley, and Noyes, Assistant Director, Division of Research and Statistics.

There were distributed copies of a memorandum from Mr. Hackley dated September 17, 1953, reviewing the discussion at the meeting. The

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memorandum stated that under the Reconstruction Finance Corporation Liquidation Act the President must transfer the section 302 functions of that agency to some other agency of the Government before September 29, that the Bureau of the Budget had submitted to General Services Administration a proposed executive order which would transfer such functions to that Administration, and that in responding to the Budget Bureau, General Services Administration had suggested the inclusion of a provision which would authorize the Federal Reserve Banks, upon designation by the Secretary of the Treasury and upon request by the Administrator of General Services, to act as fiscal agents of General Services Administration in the performance of such functions.

The memorandum also stated that in the discussion yesterday it appeared that agreement was reached as to the following points:

1. Applicants would be expected, in all cases, initially to contact GSA which, in consultation with the interested "delegate agency" where necessary, would determine the essentiality of the contract and the ability of the applicant to perform. GSA would also determine which of several possible methods of financing would be most appropriate. If it should feel that a section 302 loan would be appropriate, the application would then be referred to the proper Federal Reserve Bank. The Reserve Bank would first endeavor to determine whether the applicant could obtain the necessary financing from commercial banks, either without or with a Government guarantee. If this is not found feasible, the Reserve Bank would make a credit investigation and submit the application to GSA with its credit recommendation.

2. The Federal Reserve Banks would be expected as fiscal agents to disburse and collect funds, render periodic accountings to GSA of their activities, and perform other similar servicing functions solely of a fiscal agency nature.

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3. The Reserve Banks would not be expected to be responsible for engineering supervision. For example, if a loan agreement should provide for disbursement of funds at the time of 80 per cent completion of a plant, determination as to whether that condition has been fulfilled would not be a responsibility of the Reserve Bank but of GSA or its agent.

4. All actions of the Reserve Banks as fiscal agents would be subject to supervision by the Board of Governors of the Federal Reserve System.

5. Neither the Board nor the Federal Reserve Banks would have any responsibility with respect to the terms and conditions of loans or with respect to interest rates or fees charged.

The memorandum also contained the following statements:

With respect to the functioning of outstanding section 302 loans, it was agreed that the law contemplates, and the proposed Executive Order would contemplate, that all section 302 authority would be transferred as a "package", including the administration of outstanding loans as well as the making of future loans. It was pointed out that it would be more economical for both outstanding and future loans to be administered by the same agency. Governor Vardaman indicated that he would recommend that if it should be decided that the Reserve Banks act as fiscal agents with respect to the making of future loans, they should also perform such functions as to outstanding loans. In this connection, he said that it would be helpful to the Board if Mr. Jordan would furnish by tomorrow morning information as to the number and total volume of outstanding loans and their distribution as between the 12 Federal Reserve districts.

It was made clear in the discussion that if the administration of the outstanding loans should be assumed, the Reserve Banks would act only as fiscal agents, but with the understanding that they might be helpful in bringing about a refinancing of such loans through commercial banks. It was also understood that it would probably be necessary to review all outstanding loans carefully in order to determine exactly what function would be expected to be performed by the Federal Reserve Bank.

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It is understood that at some point in the near future representatives of GSA and the Board, probably after consultation with representatives of some of the Federal Reserve Banks, would attempt to work out a form of agreement or directive from GSA, to be subject to approval by the Board, which would outline clearly the nature of the functions expected to be performed by the Reserve Banks as fiscal agents. Presumably, such a directive would also contain provisions for reimbursement of the Reserve Banks and provisions protecting the Reserve Banks against liability except in their capacity as fiscal agents.

There were also distributed copies of a tabulation showing loans outstanding under section 302 of the Defense Production Act.

There was agreement with Chairman Martin's suggestion that, inasmuch as the members of the Board had not had an opportunity to read the memorandum from Mr. Hackley, they be given an opportunity to do so and that discussion of the matter by the Board be deferred until this afternoon.

Messrs. Kenyon, Boothe, Solomon, and Hackley then withdrew from the meeting. Messrs. Thomas, Economic Adviser to the Board; Young, Director, Division of Research and Statistics; Youngdahl, Assistant Director, Division of Research and Statistics; and Molony, Assistant to Mr. Thurston, entered the room; and there followed a general discussion of developments in the Government securities market.

There were then presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without

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change by the Federal Reserve Banks of Boston and St. Louis on September 14, by the Federal Reserve Bank of San Francisco on September 15, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on September 17, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then recessed and reconvened in the Board Room at 2:30 p.m. with all of the members of the Board present along with Messrs. Sherman, Kenyon, Boothe, Solomon, Noyes, and Hackley.

In accordance with the understanding at the morning session, further consideration was given at this time to the proposed use of the Federal Reserve Banks as fiscal agents of General Services Administration in connection with loans made pursuant to section 302 of the Defense Production Act.

Governor Vardaman stated that the memorandum from Mr. Hackley, which was distributed to the members of the Board this morning, appeared to cover thoroughly the procedures which had been agreed upon tentatively at the meeting with representatives of General Services Administration yesterday. He stated that the representatives of General Services Administration had come to the meeting with the apparent expectation that the Federal Reserve Banks would assume all of the operating responsibilities in connection with loans under section 302 which had been performed heretofore by the loan agencies of the

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Reconstruction Finance Corporation and that they also proposed that the Reserve Banks accept loan applications for screening and send them to General Services Administration with a recommendation. However, they accepted the suggestion that applications be sent first to Washington, where they would be screened by General Services Administration for general acceptability prior to being forwarded to the Reserve Banks for credit investigations. In this connection, Governor Vardaman pointed out that section 302 loans were among several types of credit facilities at the disposal of General Services Administration and that in the circumstances it would be advisable that any applications be sent first to that agency, where they might be studied to determine whether a section 302 loan would be preferable to some other type of credit accommodation.

Regarding outstanding loans which had been made by the Reconstruction Finance Corporation under section 302, Governor Vardaman stated that here also General Services Administration began with the assumption that the Reserve Banks would take over all aspects of the servicing of the loans, but agreement was reached that the Reserve Banks should undertake only strictly fiscal agency functions. As an example, Governor Vardaman pointed out that if there was a loan which required that additional disbursements be related to architectural and engineering progress on the contract, the Federal Reserve Bank might recommend to General Services Administration the use of some local

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engineering firm to furnish the Administration with necessary certificates but the contract for any such services would be between General Services Administration and the engineering firm itself.

Governor Vardaman then recommended that if the Board should agree to the whole idea of having the Reserve Banks act as fiscal agents for General Services Administration under the general supervision of the Board, a meeting of representatives of the 12 Federal Reserve Banks be called shortly so that the procedures for handling the loans might be discussed with representatives of General Services Administration and the Board. He brought out that in case the Board did not approve of the arrangement, there were alternative courses available to General Services Administration; for example, the establishment of field offices by the agency to handle the section 302 loans. He stated that the establishment of such offices would appear to be an expensive and cumbersome procedure and that in the circumstances it was his recommendation, after considering the matter with Messrs. Boothe, Hackley, and Noyes, that the Board approve the Reserve Banks' acting as fiscal agents under the procedures outlined in Mr. Hackley's memorandum.

Mr. Hackley recalled that he had suggested previously that General Services Administration might enter into fiscal agency agreements with each of the Reserve Banks, but said that he now felt it would be better if there could be worked out some form of directive or instructions that might be issued by General Services Administration following

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consultation with representatives of the Board, and with Board approval. Such instructions, he noted, might be similar to those which were drafted in connection with the V-loan program. He also noted that it would be important that these instructions be drafted very carefully because certain phases of the activities to be performed by the Reserve Banks were not entirely clear; for example, the extent to which the Banks would be expected to determine whether a borrower had complied with the terms of a loan.

There followed a discussion at the instance of Governor Mills as to the activities which it was envisaged that the Reserve Banks would perform in connection with outstanding loans, and it was stated that, in addition to making disbursements, the Reserve Banks as fiscal agents would have to take such steps as might be necessary in the collection of the loans under instructions from General Services Administration, although it would not be expected that they would make judgments on technical matters or act independently where the terms of a loan were not well defined.

There was also a discussion of the estimated volume of new loans under the authority of section 302. It was stated that General Services Administration had indicated that it hoped to divert as many applications as possible to commercial banks and to guarantee loans where possible under the authority of section 301 of the Defense Production Act. It was also stated that it was the policy of the Office

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of Defense Mobilization to reduce direct loan programs to a minimum, and that General Services Administration had indicated that it would refer to the Small Business Administration applications for loans up to \$200,000. Governor Vardaman pointed out, however, that in the event of war or other emergency it was quite possible that the section 302 program would be expanded considerably.

Governor Mills inquired whether any fiscal agency agreement which might be entered into would expire with the termination of the Defense Production Act, and it was stated that the delegation of authority to General Services Administration to make section 302 loans could be made only with respect to existing legislation.

Governor Robertson then raised for consideration the question whether it would be legally possible, and, if so, whether it would be desirable, to eliminate the designation of the Federal Reserve Banks as fiscal agents by the Secretary of the Treasury and to have the proposed executive order so worded that the Federal Reserve might enter into a contract direct with General Services Administration whereunder the Reserve Banks would act as fiscal agents on a nonreimbursable basis. He suggested that through such a device this one matter might be handled separate and distinct from all other cases in which the Reserve Banks act as fiscal agents of the United States and that the System might, therefore, be in a better position to consider requests which might be made in the future for the Federal Reserve Banks to perform similar

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services.

Governor Vardaman stated that, although he agreed in theory with a procedure such as outlined by Governor Robertson, it occurred to him that it would be inadvisable to complicate this matter and hold it up pending investigation of the legality and practicability of a contractual arrangement between General Services Administration and the Federal Reserve System.

In a further discussion of Governor Robertson's suggestion Mr. Hackley indicated that there might be a serious legal question as to this procedure, that attorneys for General Services Administration agreed, and that that was why it had been proposed that there be placed in the executive order provision for the designation of the Federal Reserve Banks as fiscal agents by the Secretary of the Treasury. He felt, however, that it would be possible under the proposed executive order for the Reserve Banks to serve on a nonreimbursable basis.

Mr. Solomon said that, although he appreciated the desirability of trying to keep the matter in question from establishing an unfortunate precedent, he doubted whether that objective would be gained by avoiding the designation of the Reserve Banks as fiscal agents by the Secretary of the Treasury. He thought that this might inject other difficulties, and that it might raise more problems than would be solved. It was his suggestion that the Legal Division be permitted to study the matter further.

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In further discussion it was brought out that from the standpoint of General Services Administration there might be complications if the activities of the Reserve Banks in connection with the V-loan program were on a reimbursable basis while those in connection with the section 302 program were not. It was also brought out that the absorbing by the Reserve Banks of the costs involved might be regarded as a scheme to circumvent the necessity for General Services Administration to obtain appropriations in connection with the section 302 program. Mr. Hackley recalled that the Small Business Act of 1953 expressly provides that the Federal Reserve Banks may be directed to act as agents for the Small Business Administration, that there is no provision for supervision by the Board of Governors, and that it is specifically required that there be reimbursement to the Reserve Banks for their services.

Following additional discussion, during the course of which Mr. Noyes withdrew from the meeting, Chairman Martin suggested that the procedures stated in Mr. Hackley's memorandum whereby the Reserve Banks would act as fiscal agents of General Services Administration in connection with section 302 loans be approved by the Board, with the understanding that the Legal Division would give further consideration to the possibility of working out a procedure along the lines which Governor Robertson had suggested.

Chairman Martin's suggestion
was approved unanimously, with

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the understanding that arrangements would be made for a meeting with representatives of the twelve Federal Reserve Banks next week to work out the procedures under which the fiscal agency operations would be put into effect.

All of the members of the staff then withdrew from the room and the Board went into executive session.

Following the meeting, the Chairman informed Mr. Sherman that during the executive session the Board gave consideration to actions taken by the directors of the Federal Reserve Banks other than St. Louis and Minneapolis fixing salaries for Presidents and First Vice Presidents of the Banks pursuant to the Board's letter of May 29, 1953, and that, after prolonged discussion, the Board approved, by unanimous vote, the payment of salaries to the following officers of the respective Federal Reserve Banks, effective as of the established pay periods starting nearest September 18, through December 31, 1953, provided the directors of the respective Banks fixed the salaries at the rates indicated:

<u>Name and Title</u>	<u>Federal Reserve Bank</u>	<u>Salary</u>
<u>Presidents</u>		
J. A. Erickson	Boston	\$30,000
Allan Sproul	New York	60,000
Alfred H. Williams	Philadelphia	30,000
Hugh Leach	Richmond	30,000
Malcolm Bryan	Atlanta	30,000
C. S. Young	Chicago	40,000
H. G. Leedy	Kansas City	30,000
C. E. Earhart	San Francisco	30,000
<u>First Vice Presidents</u>		
Alfred C. Neal	Boston	22,000
William F. Treiber	New York	30,000
W. J. Davis	Philadelphia	22,000
Edw. A. Wayne	Richmond	22,000
L. M. Clark	Atlanta	22,000
E. C. Harris	Chicago	27,500
Henry O. Koppang	Kansas City	22,000
H. N. Mangels	San Francisco	22,000

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In taking this action, it was understood that Chairman Martin would inform the Chairmen of the Federal Reserve Banks of Cleveland and Dallas of the reasons why the Board took no action at this time in connection with the respective proposals of the directors of those Banks for changes in salaries of the Presidents and First Vice Presidents.

Secretary's note: In accordance with the foregoing action, letters prepared for the Chairman's signature were mailed to the eight Federal Reserve Banks indicated on September 21, 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 September 17, 1953, were approved unanimously.

Memorandum from Mr. Leonard, Director, Division of Bank Operations, recommending that the resignation of the following employee in that Division be accepted:

<u>Name and title</u>	<u>Effective date</u>
Caroline C. Reinke, Clerk-Stenographer	September 18, 1953

Approved unanimously.

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

In accordance with the request contained in your letter of September 10, 1953, the Board of Governors approves the

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payment of salary to Mr. Howard J. Jensen, Federal Reserve Agent's Representative, Little Rock Branch, at the rate of \$3,840 per annum, effective October 1, 1953.

Approved unanimously.

Letter to the Board of Directors, Elmira Bank & Trust Company, Elmira, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment and operation of branches by the Elmira Bank & Trust Company, Elmira, New York, at the following locations:

84-86 Court Street, Binghamton, New York
 156 Main Street, Binghamton, New York
 53 South Washington Street, Binghamton, New York
 100 East Main Street, Endicott, New York
 36 Main Street, Cortland, New York
 243 Main Street, Johnson City, New York

provided the proposed merger with Marine Midland Trust Company of Binghamton, Binghamton, New York, Marine Midland Trust Company of Cortland, Cortland, New York, and Workers Trust Company, Johnson City, New York, is effected substantially in accordance with the terms of a plan of merger dated July 28, 1953, a copy of which has been supplied to us by the Reserve Bank, and provided further that formal approval is obtained from the appropriate State authorities.

The authority to establish the branches will apply to Marine Midland Trust Company of Southern New York, in the event that name has been adopted by your institution prior to the time the branches are established.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.

Letter to Bank of America, 40 Wall Street, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes Bank of America, New York, New York, pursuant

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to the provisions of section 25(a) of the Federal Reserve Act and the Board's Regulation K, to establish a branch in the City of Singapore, Colony of Singapore, and to operate and maintain such branch subject to the provisions of such section and Regulation; upon condition that unless the branch is actually established and opened for business on or before October 1, 1954, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York, with a letter to Mr. Wiltse, Vice President of the Reserve Bank, containing the following paragraph:

Please ask Bank of America to note that the authority to establish the branch will automatically terminate on October 1, 1954, if the branch is not actually established and opened for business on or before that date, and request Bank of America to advise the Board in writing through the Federal Reserve Bank of New York when the branch is so established and opened for business.

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

This refers to your letter of September 8, regarding the penalties of \$243.96 incurred by The Bank of Tokyo of California, San Francisco, California, on deficiencies in its reserves for most of the weekly reserve computation periods ending from April 29 through August 12, 1953.

It is noted that the deficiencies were attributable to the fact that the person preparing the reserve report had been erroneously including in "Due from other banks" the bank's reserve balance with the Federal Reserve Bank and a balance due from a foreign branch, thus overstating the allowable deductions and understating net demand deposits and the amount of required reserves; that the Federal Reserve Bank discovered the discrepancy in August, when comparisons were made of deposit figures shown in

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reserve reports with those reported in the June 30 call report; that the member bank promptly corrected its error and furnished the Federal Reserve Bank with revised reserve reports properly prepared; that the subject bank is a new member bank, having opened its reserve account on February 2, 1953; and that the Federal Reserve Bank is convinced of the member bank's desire to maintain an adequate reserve and to cooperate fully in other matters pertaining to its membership.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalties in each case.

Approved unanimously.

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

An inquiry has been received by the Board as to whether the principle stated in its interpretation of Regulation Q relating to "Time Certificates with Alternate Maturities" and published in the 1953 Federal Reserve Bulletin, pp. 721-722, and 18 Federal Register 4005, is applicable also in the case of a "time deposit, open account" as defined in section 1(d) of the regulation.

By way of illustration, the inquiry cited a case in which, by the terms of the contract, the deposit would be payable at a stated maturity of 6 months from the date thereof with interest at a rate of 2-1/2 per cent, but with an option on the part of the depositor to withdraw all or part of the deposit at an earlier date either after 30 days' written notice with interest at a rate of 1 per cent, or after 90 days' written notice with interest at a rate of 2 per cent.

It is the Board's view that such a deposit could properly be classified as a "time deposit, open account" and that the principle stated in the interpretation referred to above with respect to time certificates of deposit would also be applicable to such a time deposit, open account; in other words, that the maximum permissible

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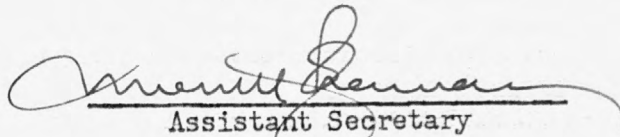
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rate of interest would depend upon which of the alternate withdrawal privileges is elected by the depositor and the rate applicable under the regulation in the circumstances of the withdrawal privilege so elected. The application of this principle is not affected by the fact that the contract of deposit provides contemporaneous, alternative provisions for withdrawal prior to the stated maturity, either of which the depositor might exercise at his option.

The Board is of the view also that, should the depositor withdraw only a part of the deposit pursuant to exercise of either the 30-days' or the 90-days' written notice provision, it would be permissible for the remainder of the original deposit to bear interest at the 2-1/2 per cent rate for the specified maturity of 6 months.

The text of this letter will be published in early issues of the Federal Reserve Bulletin and the Federal Register.

Approved unanimously.


Assistant Secretary