

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 6, 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. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Sloan, Director, Division of Examinations
Mr. Myrick, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel

Governor Mills recommended that the Board give a dinner at a local hotel for Federal Reserve Bank personnel attending the annual meetings of the American Economic Association and the American Statistical Association, to be held in Washington in late December of this year. He commented that it had been several years since these meetings were last held in Washington and that when they are held in a city where a Federal Reserve Bank is located it is customary for the Bank to give a dinner for Federal Reserve personnel attending the meetings. Governor Mills stated that attendance at the dinner would total approximately 75, making provision for members of the Board and appropriate members of the Board's staff, that the cost of the dinner would be about \$600, and that

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funds were available in the 1953 budget of the Division of Research and Statistics.

Governor Mills' recommendation was approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of two memoranda from Mr. Hackley, dated October 2 and 5, 1953, regarding the proposed Commodity Credit Corporation program for the sale of certificates of interest in pools of loans made to producers of agricultural commodities other than cotton. The basic purpose of the program, as explained in Mr. Hackley's memorandum of October 2, would be to make the certificates of interest attractive investments for banks, particularly the larger banks, thereby reducing the amount of loans held directly by Commodity Credit Corporation and to that extent holding down the public debt. Under the program, Commodity Credit Corporation would establish a pool in the amount of all outstanding loans on agricultural commodities other than cotton, including both loans made directly by the Corporation and loans made originally by banks but subsequently purchased by the Corporation. The holding of the certificates of interest would be limited to banking institutions and, at least at the outset, to commercial banks. The certificates would mature on July 31, 1954; they would bear interest at the rate of 2-1/2 per cent; and they would be subject to purchase by Commodity Credit Corporation upon demand of the holder. The Federal Reserve Bank

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of Chicago, acting as fiscal agent for Commodity Credit Corporation, would handle the issuance, transfer, and redemption of the certificates, and would act as custodian of the certificates for the holders. The certificates could be purchased through any Federal Reserve Bank or branch (also acting as fiscal agent for Commodity Credit Corporation) which would transmit the purchase funds by wire to the Federal Reserve Bank of Chicago for credit to the account of Commodity Credit Corporation.

Mr. Hackley's memorandum of October 5 discussed three questions in connection with the proposed certificates which had been raised by the Federal Reserve Bank of Chicago, as follows:

(1) Would the certificates be exempted from statutory limitations on the amount which may be loaned by a bank to one borrower?

(2) Could the certificates properly be regarded as "agricultural paper" so as to be eligible for rediscount by the Federal Reserve Banks?

(3) What would be the Board's position as to the use of such certificates of interest as collateral for an advance to a member bank where the certificates have been acquired by the offering member bank from a nonmember bank?

With regard to the first question, Mr. Hackley pointed out that this would be a question primarily for the Comptroller of the Currency to decide with respect to national banks and for the State banking authorities to decide with respect to State banks, the Federal Reserve System being concerned only to the extent that a Federal Reserve Bank

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may not rediscount for any State member bank paper of one borrower in excess of the amount which could be borrowed from a national bank. While Section 5200 of the Revised Statutes of the United States provides generally that a national bank may not loan to one borrower more than 10 per cent of the bank's capital and surplus, exception (10) expressly exempts any obligation subject to purchase within 60 days after demand by any agency of the United States.

Governor Robertson said he understood that the Comptroller of the Currency had taken the position that the certificates of interest would be covered by exception (10).

With regard to the second question, Mr. Hackley pointed out that under the current provisions of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, the certificates of interest, not being negotiable, would not be eligible for discount by the Federal Reserve Banks. They would, however, be acceptable security for advances by Reserve Banks to member banks if the underlying notes in which such certificates evidence an interest have maturities of not more than nine months.

With regard to the third question, Mr. Hackley stated that under the Federal Reserve Act and Regulation A, paper endorsed by or acquired from a nonmember bank cannot be used by a member bank as collateral for an advance from a Federal Reserve Bank without the permission of the Board of Governors, unless the paper was purchased by

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the member bank on the open market or was otherwise acquired in good faith and not for the purpose of obtaining credit for the non-member bank. This raised the question whether the Board as a matter of policy would be willing to grant permission for the use of the proposed certificates of interest, when acquired from nonmember banks, as collateral for advances to member banks for the purpose of obtaining credit for the nonmember bank, either by specific permission in individual cases or by a general blanket permission.

In further comments, Mr. Hackley said that a telegram had been received yesterday from President Young, of the Chicago Reserve Bank, formally presenting the three questions referred to in his (Mr. Hackley's) memorandum of October 5.

There was a general discussion of what action the Board should take with regard to the questions presented by the Federal Reserve Bank of Chicago, particularly the third question, but no conclusions were reached and it was understood that the matter would receive further consideration at the meeting of the Board tomorrow.

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 October 5, 1953, were approved unanimously.

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

In accordance with the request contained in your letter of September 25, 1953, the Board of Governors approves the

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continuation of the payment of salary to Mr. Roland J. Schwartz as Assistant Chief, Cash Custody Division, Cash Custody Department, at his present rate of \$6,717 per annum, for an additional period ending July 1, 1954, at which time, as indicated in your letter, he is to be assigned to the position of Administrative Assistant Chief, Salary Grade XII.

Approved unanimously.

Letter to Mr. Clark, First Vice President, Federal Reserve Bank of Atlanta, reading as follows:

The Board of Governors approves the payment of salary to Mr. E. C. Rainey as Assistant Manager, Birmingham Branch, for the period October 1, 1953, through December 31, 1953, at his present rate of \$10,000 per annum, which is the rate fixed by the Executive Committee of the Board of Directors as reported in your letter of September 24, 1953.

Approved unanimously.

Letter to Mr. Shepard, Federal Reserve Agent, Federal Reserve Bank of Minneapolis, reading as follows:

In accordance with the request contained in Mr. Powell's letter of September 30, 1953, the Board of Governors approves, effective October 16, 1953, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

Helena Branch

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
John L. Heath	Federal Reserve Agent's Representative	\$5,150
Leland W. Powell	Federal Reserve Agent's Representative	5,150

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of your recommendation and the information contained in your letter of September 29, 1953, the Board of

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Governors extends until April 15, 1954, the time within which The Central Bank Company, Lorain, Ohio, may establish a branch near the intersection of State Routes 254 and 57 in Sheffield Township, Lorain, Ohio, under authority granted in the Board's letter of May 8, 1953, provided a like extension is granted by the State banking authorities.

Approved unanimously.

Letter to the Board of Directors, First Bank and Trust Company of South Bend, South Bend, Indiana, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment and operation of a branch at 2202 South Bend Avenue, South Bend, Indiana, by the First Bank and Trust Company of South Bend, provided the branch is established within six months after the date of this letter.

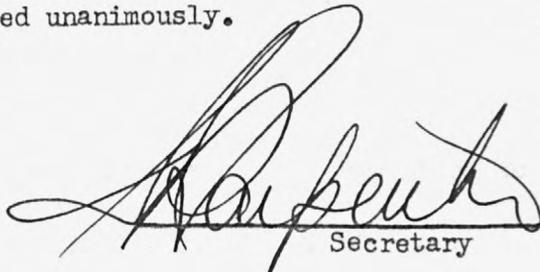
Approved unanimously, for transmittal through the Federal Reserve Bank of Chicago.

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

Reference is made to your letter of September 29, 1953, and enclosures regarding the proposal of the California Bank, Los Angeles, California, to move its Federal Office from 2201 North Broadway to a new location three blocks east at North Broadway and Workman Street, Los Angeles.

It appears that this move would be a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and should not be regarded as the establishment of a new branch. Accordingly, the Board's approval for this move will not be required.

Approved unanimously.


Secretary