

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 7, 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
Mr. Hexter, Assistant General Counsel
Mr. McClelland, Federal Reserve Examiner, Division of Examinations

There was presented a request that Mr. Thomas, Economic Adviser to the Board, be authorized to travel to Richmond, Virginia, during the period December 10-13, 1953, to attend and participate in a central banking seminar for professors of money and banking being arranged by the Federal Reserve Bank of Richmond, pursuant to the invitation contained in a letter dated September 29, 1953, from Mr. Leach, President of the Richmond Bank.

Approved unanimously.

Pursuant to the understanding at the meeting yesterday, there was a further discussion of the plan of Commodity Credit Corporation to inaugurate

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shortly a program for the sale to banks of certificates of interest in pools of notes evidencing loans under various commodity loan programs other than cotton, and of the questions regarding the proposed certificates of interest which had been raised by the Federal Reserve Bank of Chicago.

In the course of the discussion, Mr. Hexter, at the request of Governor Robertson, commented in some detail on the investigation he had made into the legal authority of Commodity Credit Corporation to institute the proposed program.

Governor Robertson stated that while he felt that the Board should be apprised of the legal question referred to by Mr. Hexter, he thought that the Board would have to proceed on the theory that another Government agency (Commodity Credit Corporation) had gone into the question of its right to institute the program and had satisfied itself as to its authority.

There was also a brief discussion of the extent to which the proposed certificates of interest would be guaranteed by the United States Treasury during which it was stated that the certificates would evidence interest in notes which were unconditionally guaranteed by Commodity Credit Corporation but that the Corporation evidently did not regard the certificates as being issued under its borrowing authority although a certain part of the borrowing authority apparently would be reserved for the purpose of taking up the certificates.

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Governor Robertson then referred to the previous discussions by the Board of the proposal of the Association of Reserve City Bankers that the form of bank condition report be amended so as to show the certificates of interest as a separate item. After commenting that the matter had been discussed by members of the Board's staff with representatives of the Treasury Department, Governor Robertson said that yesterday Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, informed him in a telephone conversation that Mr. Burgess, Deputy to the Secretary of the Treasury, had discussed the matter with representatives of the Association of Reserve City Bankers in New York and that the bankers were not satisfied with the Board's suggestion that the banks be permitted to show the certificates of interest in a memorandum breakdown along with other assets backed by the United States Government or its agencies. Governor Robertson said he explained to Mr. Bartelt the reasons for opposing the proposed change in the condition report and that the latter said he had not been advised previously of those reasons. This morning, Governor Robertson said, Mr. Bartelt called him on the telephone to say that the Treasury Department had received for informal clearance a letter proposed to be sent to members of the American Bankers Association and that the letter as drafted was along the lines that a change in the condition report would be made.

Governor Robertson added that, if the Board approved, he would consult with members of the staff and would send to Mr. Bartelt a suggested

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Paragraph for insertion in the letter which, in addition to indicating the Board's position with respect to the eligibility of the proposed certificates of interest for discount by the Federal Reserve Banks and as collateral for advances to member banks, would indicate that member banks could, if they chose, include the certificates in their published report of condition in a memorandum item, showing either the aggregate of obligations fully backed or insured by agencies of the United States Government or the dollar amount of every category of such obligations.

In response to questions raised by Governor Mills, Governor Robertson stated that the form of condition report had been worked out jointly by the Federal supervisory agencies with the National Association of Supervisors of State Banks and that there was an understanding that the report would not be changed without consultation with the State bank supervisors. He felt that it was important from the standpoint of good relations that no change be made without such consultation, which was precluded by time limitations in this case. He added that the consent of the State bank supervisors would not be required merely to amend the instructions to cover the optional memorandum items.

In further comments, Governor Robertson reiterated the undesirability of showing the certificates of interest as a separate item in the report of condition while not showing as separate items other assets

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falling in the same general category.

The preparation of the paragraph for the proposed letter as suggested by Governor Robertson was approved unanimously.

Following further discussion of the questions raised by the Chicago Reserve Bank regarding the proposed certificates of interest, Chairman Martin suggested that Mr. Hackley be requested to draft, for consideration at the meeting tomorrow, a letter to the Presidents of the Federal Reserve Banks setting forth the views of the Board in the light of the comments at this meeting.

Chairman Martin's suggestion was approved unanimously.

Governor Szymczak and Messrs. Myrick, Hackley, and Hexter then withdrew from the meeting.

Reference was made to a memorandum dated October 2, 1953, from the Division of Examinations regarding the adoption of a program for strengthening the capital structure of Commerce Union Bank, Nashville, Tennessee, which had been continuously deficient since the bank's admission to membership in the Federal Reserve System in 1937. The memorandum stated that at a conference held in the office of Governor Robertson on September 30, 1953, Mr. Bryan, President of the Federal Reserve Bank of Atlanta, suggested that the Board of Governors review the capital situation of the member bank and outline minimum capital requirements which he could present to the management. The recommendations of the Division of Examinations, as stated in

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the memorandum, were as follows:

That the Federal Reserve Bank of Atlanta be requested (a) to notify the bank that, in the opinion of the Board of Governors, its capital is inadequate and that, pursuant to the provisions of section 7 of Regulation H, such capital should be increased through the sale of sufficient shares of new common stock to provide not less than \$1,000,000 additional capital funds; (b) that such amount of additional capital funds is considered the minimum amount acceptable to the Board; (c) that appropriate steps to effect this increase should be taken within six months from the date of notification by the Federal Reserve Bank; and (d) that, since the required minimum increase will not entirely correct the undercapitalized condition of the bank, it is expected the present policy of conserving a substantial portion of earnings will be continued and that further action to bring about a satisfactory relationship between the capital structure of the bank and the volume of business which it handles within a reasonable length of time will be taken, if necessary.

In reviewing the situation, Governor Robertson expressed the opinion that \$1 million of additional capital funds was the minimum that could be recommended.

During discussion of the matter, question was raised whether the position of the Board should be as fixed as to indicate a minimum requirement of \$1 million or whether the matter should be kept on a flexible basis until it could be determined what the possibilities were. All of the members of the Board were in agreement with Governor Robertson's position that the matter had gone without action long enough and that it should be pursued to a satisfactory conclusion with the member bank, with the understanding that it might be necessary, in the event the bank was

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not willing to take the necessary corrective measures, to institute proceedings to expel the bank from membership in the System.

Governor Robertson stated that it was his thought that informal discussions with the member bank should be initiated by President Bryan with the hope that the bank would come forth with a proposal which would be acceptable, and that he would like to initiate discussions on that basis with the understanding expressed at this meeting that the Board would insist that a satisfactory program for the provision of additional capital be adopted.

At the conclusion of the discussion, it was agreed unanimously that the Board should go all the way in insisting that Commerce Union Bank adopt a program to provide adequate capital, and that the procedure outlined by Governor Robertson should be carried out.

Messrs. Sloan and McClelland then withdrew from the meeting.

Governor Mills reported that an advisory council to the Committee on Retirement Policy for Federal Personnel (of which Chairman Martin is a member, with Governor Mills as alternate) was to meet in Washington later this month, and that a representative of the Committee, explaining that the Committee lacked funds, had inquired whether the Board would consider inviting the members of the Committee and the advisory group to have lunch at the Federal Reserve Building on October 28.

Following consideration of the composition of the Committee on Retirement Policy for Federal Personnel, its work, and

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other circumstances involved, Governor Mills was authorized to extend the members of the Committee and its advisory council an invitation to have lunch with the Board on October 28, with the understanding that the cost of the luncheon for the guests would be paid by the Board.

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 6, 1953, were approved unanimously.

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

Reference is made to your letter of September 28, 1953, with respect to the plan of the Glen Cove Trust Company, Glen Cove, New York, to operate in the premises of The Nassau Union Bank following the merger of the two institutions. The banking quarters of the two institutions are separated only by an eight-foot wide driveway, and the original proposal contemplated that both buildings would be used but that the public would have access only to the building occupied by the Glen Cove Trust Company. Based on these facts, it was concluded that the use of the building of The Nassau Union Bank would not constitute the establishment of a branch and the Board's approval would not be required.

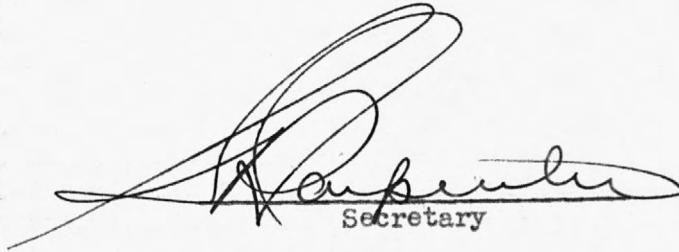
According to your letter and the enclosures, the Glen Cove Trust Company now proposes to erect a structural passageway between the two buildings, both of which would be open to the public, and in your opinion this revised plan will not involve the establishment of a branch. It is assumed that use of The Nassau Union Bank building under the revised plan will not be regarded as a branch by the State Banking Department.

We agree with your conclusion that the revised plan for use of The Nassau Union Bank building will not constitute the

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establishment of a branch, and the Board's approval will not be required.

Approved unanimously.


Secretary