Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 21, 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. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board

Pursuant to the understanding at the meeting yesterday, there was a further discussion of the request of the board of directors of the Federal Reserve Bank of St. Louis, contained in a letter dated October 12, 1953, from Mr. Dearmont, Chairman of the Bank, to Chairman Martin, that the Board of Governors approve the payment of salaries to President Johns and First Vice President Deming at the rates of $30,000 and $22,000 per annum, respectively, effective October 16, 1953. During the discussion, reference was made to the information set forth in a memorandum dated October 16, 1953, from the Division of Personnel Administration regarding the length of service of Messrs. Johns and Deming in their present positions and the salaries approved by the Board for Presidents and First Vice Presidents at other Federal Reserve Banks.

At the conclusion of the discussion, unanimous approval was given to a letter from Chairman

Martin to Chairman Dearmont in the following form:

The Board of Governors approves the payment of salaries to President Johns and First Vice President Deming, effective with the pay period beginning nearest October 21, 1953, through December 31, 1953, at the rates of $30,000 and $22,000 per annum, respectively, which are the rates fixed by the Board of Directors as indicated in your letter of October 12, 1953.

Approved unanimously.

At this point Mr. Young, Director, Division of Research and Statistics, entered the room.

Mr. Young reported that Mr. Neil H. Jacoby, of the Council of Economic Advisers, had informed him that consideration was being given to the establishment of a seventh task force which would report to the Advisory Board on Economic Growth and Stability (of which Governor Mills is a member) through the Advisory Board's auxiliary staff committee (of which Messrs. Young and Riefler, Assistant to the Chairman, are members). The six task forces already established have been assigned to study specific measures to promote economic growth and stability in various areas and the proposed new task force would study measures directed toward strengthening the financial system and increasing its contribution to economic stability. Pursuant to the terms of reference of its assignment, the new task force would proceed on the assumption that an appropriate monetary policy would be pursued by the national monetary authorities and it would not concern itself with the subject of general monetary policy.

Mr. Young said that each of the task forces is under the chairmanship of a member of the staff of the Council of Economic Advisers and that the membership includes one person in each case who is also a member of the auxiliary staff committee. He went on to say that Mr. Jacoby stated that at present the Council did not have on its staff a person who they felt was competent to serve as chairman of the task force which would study the financial system and that in the circumstances Mr. Jacoby inquired whether the Board would loan Mr. Koch, Chief of the Banking Section, Division of Research and Statistics, to the Council in order that he might serve as chairman of the task force. The period of service involved would be from a date within the near future until about the end of 1953, or a short time thereafter, and the Board might continue to pay Mr. Koch's salary during this period or grant him a leave of absence without pay. In either event, Mr. Koch would be designated as a member of the Council's staff while engaged in the proposed assignment.

Mr. Young also said that, according to Mr. Jacoby, it was proposed that he (Mr. Young) would be a member of the task force along with Mr. Edison H. Cramer, Chief of the Division of Research and Statistics, Federal Deposit Insurance Corporation, Mr. Gidney, Comptroller of the Currency, and a person not yet selected who would represent the Securities and Exchange Commission.

Mr. Young added that there was a question in his mind as to the usefulness of the proposed task force, but since the Council apparently was quite firm in its decision to pursue the inquiry, he felt there was much to be said for making the best talent available. In the circumstances, he recommended that the Board agree to loan Mr. Koch to the Council of Economic Advisers to serve as chairman of the task force. With regard to the proposal that he (Mr. Young) serve as a member of the task force, Mr. Young said the suggestion had been made to Mr. Jacoby that he consult with Chairman Martin on this point.

The matter was discussed at some length from the standpoint of whether it would be desirable to have a representative of the Board's staff serve as chairman of the task force studying the financial system and from the standpoint of the extent of participation in the formulation of decisions required of members of the Board's senior staff serving on the auxiliary staff committee.

At the conclusion of the discussion, Chairman Martin suggested that Mr. Young be authorized to advise Mr. Jacoby that the Board would be willing to loan Mr. Koch to the Council of Economic Advisers so that he might serve as chairman of the task force which would study the financial system, with the understanding that Mr. Koch's salary would continue to be paid by the Board on a nonreimbursable basis during the period of his service. He also suggested that Mr. Young indicate to

Mr. Jacoby that the Board might be reluctant to consider a request that he (Mr. Young) or another member of its senior staff be designated as a member of the task force.

Chairman Martin's suggestions were approved unanimously.

Mr. Young then withdrew from the meeting and Messrs. Johns, President of the Federal Reserve Bank of St. Louis, and Daniels, Chief, Reserve Bank Operations Section, Division of Bank Operations, entered the room.

President Johns was present to discuss with the Board of Governors, at his request, the matter of selecting a site for the erection of a proposed new building for the Louisville Branch. Preparatory to this discussion, he had sent to the Board a letter dated October 16, 1953, containing certain information regarding the employment by the Reserve Bank of the firm of Russell, Mullgardt, Schwarz, Van Hoefen, architects, of St. Louis, Missouri, (1) to study and make recommendations concerning the type of building that could be erected at the northwest corner of 5th and Market Streets (the site of the present branch building) assuming that additional land north of and adjacent to the present building could be acquired at a reasonable price, and (2) to make a site selection survey in and about the entire business district of Louisville. President Johns' letter advised that, following consideration of the reports of the architectural firm, the Reserve Bank's directors, at a meeting on October 8, 1953, took the following actions, subject to the approval of the Board of Governors:

1. It was voted to locate the proposed new branch building on a site at the northwest corner of 5th and Market Streets. This site has a frontage of 105 feet on Market Street and 204 feet on 5th Street. It includes the site of the existing branch building and the land adjacent thereto on the north, the acquisition of which is presently protected by option agreements in favor of this bank which will expire December 15, 1953. The additional land, which consists of several parcels under different ownerships can be acquired pursuant to the option agreements at an aggregate cost of $339,000. As part of the same action, the directors voted to exercise the option agreements, to purchase the land at the price stated, and to authorize the officers of the bank to pay such costs and expenses as may be reasonably necessary in order to acquire good title to the land, including attorneys' fees.

2. The directors voted to employ the architectural firm of Russell, Mullgardt, Schwarz, Van Hoefen as architects to prepare plans and specifications for the proposed branch building and to supervise the construction thereof for a fee of 8 per cent of the cost of the work, subject, however, to a credit of $7,500 on account of sums heretofore paid to that firm for services in connection with the proposed new branch building.

Copies of President Johns' letter and its enclosures had been sent to the members of the Board prior to this meeting.

In response to an inquiry by Governor Vardaman, President Johns stated that prior to action on the part of the head office board of directors, the directors of the Louisville Branch had made a recommendation that the proposed new branch building be erected on the site of the present branch building provided that it would be possible to acquire additional ground adjacent to the present branch building so as to provide a site adequate as to size and other characteristics.

In response to another question by Governor Vardaman, President Johns said that the choice of an architectural firm was discussed by the directors of the Louisville Branch, that it was their finding that there was no firm in Louisville which should be employed for this purpose, and that, accordingly, it was the recommendation of the branch directors that an outside firm be selected. He also stated that two members of the firm of Russell, Mullgardt, Schwarz, Van Hoefen were associated with the firm that served as architects for the head office building of the St. Louis Reserve Bank and the building of the Memphis Branch, and that some years ago, before he (President Johns) joined the St. Louis Bank, this firm also had been employed to study the erection of a new building on the site of the present Louisville Branch building, although the acquisition of additional land adjacent to the present structure was not under consideration at that time.

Governor Vardaman then stated that he favored the erection of the new building on the site at 6th Street and Broadway which was discussed in the architectural firm's site analysis report, and he inquired as to President Johns' views on the relative merits of that site and the location at 5th and Market Streets.

In enumerating factors favorable to the 5th and Market Streets site, President Johns stated that the street grade at this location was not affected by the 1936 flood while the street grade at 6th Street and Broadway was under water, that erection of a building at 6th Street and

Broadway would create certain traffic problems, particularly because of the distance from the financial district, and that he had given a very considerable amount of attention to the attitude of member banks in Louisville. In summarizing, he stated that inasmuch as additional land was available adjacent to the present building at a reasonable price and the architectural firm had found that a thoroughly satisfactory new building could be constructed at the 5th and Market Streets location, he had reversed his earlier position and had concluded that this site would be preferable.

At this point Messrs. Weigel, Vice President and Secretary of the Federal Reserve Bank of St. Louis, and Arthur F. Schwarz, of the firm of Russell, Mullgardt, Schwarz, Van Hoefen, entered the room.

President Johns described the preliminary plans for a five-story building, with basement and sub-basement, at the 5th and Market Streets site. He pointed out that these plans had been drawn up only for the purpose of answering the question whether an adequate and satisfactory structure could be provided at that location, and that the drawings were not to be considered binding in any way as to the type and style of building that finally would be approved. President Johns also stated that it appeared most feasible to carry forward the construction by building first on the additional land to be acquired and then on the area where the present structure now stands. The extra costs incident to proceeding in this way would be partially offset by retention of the present vaults. He estimated the total cost of the new building, not including the purchase price of additional land ($339,000) at around $2.9 million.

In response to questions by members of the Board, President Johns and Mr. Daniels expressed the opinion that, based on experience with other branch building projects, the cost chargeable to "building proper" under the so-called Persina formula might be around 70 per cent of the $2.9 million estimated total cost. Mr. Daniels also stated that of the $20 million authorized by Congress for new branch building construction, no definite allocation had yet been made for the Louisville building.

President Johns indicated that no construction at Little Rock or Memphis was contemplated at present although he added that a material increase in the volume of work at the Memphis Branch at some future time might result in a proposal to erect an addition to the present building on adjoining land.

In reply to further questions by the Board, Mr. Schwarz said that he had no reservations concerning the possibility of erecting an adequate building of pleasing design at the 5th and Market Streets site, that the availability of additional land adjacent to the present branch building eliminated construction problems that otherwise would have existed, that provision would be made for a garage within the building to accommodate a minimum of 30 automobiles, that public transportation to the area was good, and that nearby private parking lots were available.

President Johns discounted the possibility that commercial banks might move from the neighborhood, at least during the useful life of the proposed new building, particularly because of alterations and improvements which several of the banks had made recently to their present quarters. He also stated that on the basis of the site analysis survey made by the architectural firm, prospective locations other than the two above-mentioned had been ruled out of consideration.

Messrs. Johns, Weigel, and Schwarz then withdrew from the meeting.

There was a further discussion of the Louisville Branch building matter, during which Chairman Martin noted that option agreements in favor of the St. Louis Reserve Bank to acquire land adjacent to the present branch building would not expire until December 15, 1953. In the circumstances, it was understood that no action would be taken by the Board on the matter pending the return of Governor Evans.

Governor Vardaman made a statement in which he proposed the need for an over-all study of Reserve Bank and branch territories and, in this connection, reference was made to the request of the Board at the joint meeting with the Presidents of the Federal Reserve Banks on March 5, 1953, that the Presidents quietly undertake to study informally within their respective districts the question whether changes in transportation facilities and other conditions since the existing Reserve Bank and branch territories were established would call for changes in such territories to enable the Banks and their branches to serve their member banks more effectively.

Governor Robertson suggested that the necessary steps be taken to have this matter placed on the agenda for further consideration at the next meeting of the Presidents' Conference. He also suggested that when the Chairman and President of a Reserve Bank are invited to meet with the Board for discussion of matters in connection with the report of examination of the Bank, they be advised that this would be among the items that would be brought up by the Board.

Governor Robertson's suggestions were approved unanimously.

Chairman Martin suggested in this connection that Mr. Leonard, Director, Division of Bank Operations, be requested to prepare for the Board's consideration a tentative allocation of the $20 million authorization for Federal Reserve Bank branch building programs.

This suggestion also was approved unanimously.

Governor Robertson referred to discussions by the Board, most recently at the meeting on October 13, 1953, regarding the reporting of loans directly guaranteed by Commodity Credit Corporation, and certificates of interest representing ownership thereof, in call reports of condition. He stated that he had discussed with Mr. Horbett, Assistant Director, Division of Bank Operations, the related question of reporting of the certificates by weekly reporting member banks and that, as stated in a memorandum dated October 19, 1953, addressed to Mr. Horbett by Mr. Conkling, Chief, Member Bank Section, Division of Bank Operations, there were at least three alternatives, as follows:

1. To do nothing regarding the forms or instructions, in which case acquisitions of the certificates by reporting banks would be reflected as an increase in commercial, industrial, and agricultural loans on the weekly condition statement and in unclassified changes in the weekly statement showing changes in commercial and industrial loans by industry.

2. To split the commercial, industrial, and agricultural loan item on the weekly condition statement into a commercial and industrial loan item and an agricultural loan item, the latter including the certificates of interest. Under this alternative there would be no change in the loans by industry statement except that the net weekly change would correspond to the net change in commercial and industrial loans, the new first sub-item.

3. To do nothing with regard to the weekly condition statement, but to add an item on the changes by industry statement to show net changes in agricultural loans (including the certificates of interest).

Governor Robertson said he would recommend no change in the two weekly statements at this time (the first alternative above-mentioned) since the Commodity Credit Corporation program of financing through sale of the certificates of interest might be of short duration and in relatively small amounts.

Governor Robertson's recommendation was approved unanimously, together with a telegram to the Presidents of all Federal Reserve Banks in the following form:

Please advise all weekly reporting member banks that holdings of Commodity Credit Corporation certificates of interest should be reported against item 1a, commercial, industrial, and agricultural loans, on form F. R. 416 the same as any other agricultural loans.

Please advise banks in the series reporting principal changes in commercial and industrial loans by industry on form F. R. 416a that these certificates should not be reflected in items 1-9, inclusive, but banks may append a note accounting for any substantial differences between net change in classified loans (item 9) and the total net change (item 10) resulting from transactions in CCC certificates.

The meeting then 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 October 20, 1953, were approved unanimously.

Memorandum dated October 12, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Edith C. Hartzell as Charwoman in that Division, on a temporary basis for a period of two months, with basic salary at the rate of $2,420 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to the Board of Directors, Peoples Trust Company of Bergen County, Hackensack, New Jersey, 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 a branch on Route 4, approximately 400 feet west of Forest Avenue in the Borough of Paramus, New Jersey, by the Peoples Trust Company of Bergen County, Hackensack, New Jersey, provided the branch is established within six months from October 1, 1953.

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

Letter to Mr. McCreedy, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

> This refers to your letter of October 13, regarding the penalties of $6.14 and $50.14 incurred by the Farmers and Mechanics National Bank, Woodbury, New Jersey, as a result of deficiencies in reserves for the periods ended August 31 and September 15.
>
> It is noted that the deficiencies were attributable to the fact that, because of a change in personnel at the member bank, requirements were inadvertently calculated incorrectly; that these are the first deficiencies in the member bank's reserves since December 1944; and that both deficiencies were less than five per cent of required reserves and your Bank could waive either penalty under the provisions of paragraph E of the waiver rules (F.R.L.S. #6120) but not both.
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> In the circumstances, the Board authorizes your Bank to waive assessment of the two penalties above mentioned.

Approved unanimously.

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

> In accordance with the recommendation contained in your letter of October 14, 1953, the Board of Governors extends until May 6, 1954, the time within which The Cleveland Trust Company, Cleveland, Ohio, may establish a branch near the corner of West 210th Street and Center Ridge Road in either Rocky River or Fairview Park, Ohio, as approved by the Board under date of November 6, 1951.

Approved unanimously.

Letter to the Board of Directors of the Huntington Trust & Savings Bank, Huntington, West Virginia, 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 Richmond.

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

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

> Referring to your letter of October 14, the Board extends until November 30, 1953 the time within which Harris Trust and Savings Bank, Chicago, Illinois, shall file the report of Larcon Company, its affiliate, as of September 30, 1953.
>
> Please keep the Board advised as to any material change in the status of the affiliation which may occur prior to the expiration of this extension period.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

Pursuant to the recommendation contained in your letter of October 13, 1953, the Board of Governors extends to January 25, 1954, the time within which the Peoples State Bank of Kountze, Kountze, Texas, may complete membership in the Federal Reserve System as provided in our letter of August 24, 1953.

Approved unanimously.

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

This refers to your letter of October 13 regarding a deficient reserve penalty of $46.03 incurred by the Portland Trust Bank, Portland, Oregon, for the period ended February 4, 1953, which was inadvertently waived by your Bank, as noted in the course of the examination as of September 14, 1953.

In order that there may be no question in the future as to the action taken, the Board ratifies the waiving of the penalty by your Bank.

Approved unanimously.

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

Reference is made to your letter of October 14, 1953, and enclosures advising of the proposal of the Portland Trust Bank, Portland, Oregon, to remove its branch on Washington Street to a new location approximately 100 feet east and on the opposite side of the street.

It appears that this proposal would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, accordingly, we concur in your view that the approval of the Board of Governors is unnecessary.

Approved unanimously.

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

The Board has been requested to interpret the following sentence of section 17(c)(5) of its Regulation F:

"No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having invested in the aggregate in the Common Trust Fund an amount in excess of 10 per cent of the value of the assets of the Common Trust Fund at the time of investment, as determined by the trust investment committee, or the sum of $100,000, whichever is less."

The specific question was whether (1) the actual amount previously invested in participations in the common trust fund or (2) the present market value of such participations, should determine the amount of additional investments, if any, which may be made in such participations.

It is the Board's view that under this language of the regulation the additional amount which a trust may invest in a common trust fund is determined by the dollar amount which the trust actually invested in the participations which it now holds, rather than by the present market value of such participations. For example, if a total of $75,000 was paid for units purchased for the trust on previous occasions, the amount which could now be invested would be $25,000 (assuming that $100,000 does not exceed 10 per cent of the present value of the assets of the common trust fund), regardless of the present market value of the units already held by the trust.

This letter supersedes the Board's letter of July 19, 1938 (S-107) which was to the opposite effect, but was based on a provision of the regulation which was revised in 1945.

Approved unanimously.

Proposed memorandum from Mr. Carpenter, Secretary of the Board, to the heads of all Divisions reading as follows:

There is attached a copy of a letter dated September 16, 1953, and a copy of a memorandum, dated August 27, 1953, from the Department of Justice, concerning the prosecution of former officers and employees of the United States who may have violated the provisions of Section 284 of Title 18 of the United States

Code by undertaking representation or employment from which they are disqualified by that law.

The Board has requested that the letter and memorandum from the Department of Justice be brought to the attention of all members of the Board's staff for their information and guidance, and it will be appreciated if you will see that the information is conveyed to the persons in your Division.

Approved unanimously.

Secretary