Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 27, 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. Vest, General Counsel
Mr. Allen, Director, Division of Personnel Administration
Mr. Hackley, Assistant General Counsel

The following requests for travel authorization were presented:

| Name and title | Duration of travel |
| --- | --- |
| Woodlief Thomas, Economic Adviser to the Board | December 3, 1953 |

To return from New York, New York, (pursuant to travel authorized by the Board on November 16, 1953) via Haverford, Pennsylvania, to discuss monetary policy with the students of money and banking at Haverford College.

| Name and title | Duration of travel |
| --- | --- |
| H. F. Sprecher, Jr., Assistant Director, Division of Personnel Administration | November 30 - December 1, 1953 |

To travel to Richmond, Virginia, to review the work of the Personnel Department of the Federal Reserve Bank of Richmond.

Approved unanimously.

Chairman Martin stated that he had discussed by telephone with Mr. Shepard, Chairman of the Federal Reserve Bank of Minneapolis, the appointment of a Deputy Chairman at the Minneapolis Bank for the year 1954, and that Chairman Shepard, along with Chairman-designate Miller, favored Mr. Leslie N. Perrin, Director, General Mills, Inc., Minneapolis, Minnesota, who was appointed on November 24, 1953, as Class C director of the Bank for the three-year term beginning January 1, 1954.

Thereupon, it was voted unanimously to request Chairman Shepard to ascertain and advise the Board whether Mr. Perrin would accept, if tendered, appointment as Deputy Chairman of the Federal Reserve Bank of Minneapolis for the year 1954.

Mr. Allen then withdrew from the meeting.

Reference was made to a telephone conversation between Governor Mills and Mr. Carroll Gunderson, Deputy Manager of the American Bankers Association, in which the latter stated that the principal officers of the Association's State and National Bank Divisions would be in Washington on February 12, 1954, and asked whether a meeting with the Board might be arranged.

Governor Mills was authorized by unanimous vote to extend through Mr. Gunderson an invitation to the group to have lunch at the Federal Reserve Building as guests of the Board on February 12, 1954, and to meet with the Board following lunch to confer on subjects pertinent to the mutual problems of commercial banks and the Federal Reserve System.

At this point Messrs. Riefler, Assistant to the Chairman, and Thomas, Economic Adviser to the Board, entered the room.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Thomas dated November 20, 1953, concerning the study of member bank reserve requirements which was requested by the Board on April 23, 1953. To the memorandum was attached a statement summarizing comments received from the Federal Reserve Banks on a staff memorandum of proposals for modernizing reserve requirements, which was transmitted to the Banks with the Board's letter of July 30, 1953. The memorandum from Mr. Thomas noted that there was no general agreement on the part of the Reserve Banks as to what type of reserve structure would be most desirable, but that the Banks were in general agreement with the Board's proposal for setting up a technical committee for further study of the matter. There was also attached to the memorandum a draft of letter to the Presidents of all Federal Reserve Banks stating the purpose of the committee and naming persons from certain Federal Reserve Banks who would be requested to serve on the committee. The memorandum suggested that aside from Mr. Thomas, who would act as Chairman, the following members of the Board's staff work with the committee: Mr. Horbett, Assistant Director, or Mr. Collier, Technical Assistant, Division of Bank Operations, and Mr. Eckert, Economist, Division of Research and Statistics.

Discussion of the matter included reference to the views expressed by the Reserve Banks in response to the Board's letter of July 30, 1953, proposals which had been made in the past for changes in the system of reserve requirements, and the work to be performed by the technical committee. The opinion was expressed that the Reserve Bank members of the committee should serve as consultants to the Board in exploring the points of disagreement mentioned by the Reserve Banks, with the understanding that Mr. Thomas, in consultation with Governor Mills, would have responsibility for making recommendations to the Board.

Following the discussion, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks reading as follows:

On July 30, 1953, Chairman Martin sent to you a copy of a staff report on proposals for modernizing member bank reserve requirements and indicated that the Board proposed to set up a technical System committee for further study of this matter.

Attached is a copy of a memorandum summarizing comments received from various Federal Reserve Banks regarding the staff report. These replies indicate considerable interest in the problem of modifying the present system of reserve requirements, but there was no general agreement as to the type of change that would be most desirable and some question the advisability of proposing any change at this time. There was general agreement with the Board's proposal for setting up a technical committee for further study.

Accordingly the Board is prepared to proceed with the organization of a committee that would work with members of the Board's staff in studying this problem. The Board would like to request the following persons to serve on it:

Chairman, Woodlief Thomas - Board of Governors
George Garvy - Senior Economist, New York
Thomas I. Storrs - Assistant Vice President, Richmond
Robert C. Holland - Economist, Chicago
Dale M. Lewis - Vice President, St. Louis
Clarence W. Tow - Vice President, Kansas City
Eliot J. Swan - Assistant Vice President, San Francisco

Other members of the Board's staff will work with the committee.

The Board's understanding is that the purpose of the committee will be to give further study to the problem of reserves and to the possible impact of various proposals upon the individual banks. On the basis of these studies it might be possible to prepare a plan that the Board would find suitable to propose in case it would seem desirable to make some such proposal. The question of the advisability of proposing actual legislation can be considered later but the Board would like to have its views in shape in case there should be a request for some such proposal or in case others should propose legislation of this nature.

There had been circulated among the members of the Board prior to consideration at this meeting a draft of letter to Mr. J. J. Somers, Controller, Commodity Credit Corporation, Washington, D. C., reading as follows:

This refers to your letter of November 23, 1953, with its enclosures, regarding the question whether certificates of interest to be issued in a proposed pool of outstanding 1952 crop cotton loans and 1953 crop cotton loans to cooperative associations would be regarded by the Board as eligible for use as collateral for advances by Federal Reserve Banks to member banks under provisions of section 2(a) of the Board's Regulation A.

It is understood that the 1953 cotton loans to cooperative associations will mature July 31, 1954, and that the 1952 cotton loans matured on July 31, 1953, but were subject to a Bulletin issued by CCC in July 1953, which provided with respect to such loans as follows:

"Loans mature July 31, 1953, but will be carried in a past-due status through July 31, 1954. If a producer does not repay his loan on or before July 31, 1954, CCC will purchase the cotton securing the loan in accordance with the provisions of the loan agreements."

Under Regulation A, certificates of interest in a pool of notes evidencing loans made pursuant to commodity loan programs of CCC may be accepted as security for advances by Federal Reserve Banks to member banks if such notes comply with the maturity requirements of the Regulation and, in the case of agricultural paper, notes are required by the Regulation to have a maturity of not exceeding 9 months.

Notwithstanding the language of the Bulletin referred to above, it is understood that it was the intent of the Bulletin to extend the loans in question in order that the producer could redeem the cotton at any time up to and including July 31, 1954. In the circumstances, it is the view of the Board that such loans may be regarded as maturing on that date and that, therefore, certificates of interest in the proposed pool will be eligible as collateral for advances by Federal Reserve Banks to member banks under the provisions of section 2(a) of the Board's Regulation A.

Approved unanimously, with the understanding that copies of the letter would be sent to the Presidents of all Federal Reserve Banks for their information.

The following letters, which had been circulated among the members of the Board, were presented for consideration because in each case the recommended Board action differed from the recommendation of the Federal Reserve Bank concerned:

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston

Reference is made to your letter of October 27, 1953, submitting the request of the Industrial Trust Company, Providence, Rhode Island, for permission to establish and operate a branch at 69 Hillside Road, Cranston, Rhode Island.

It appears that preliminary approval has been obtained from the Office of the Comptroller of the Currency to the consolidation of the Industrial Trust Company and The Providence Union National Bank under a national charter and that upon ratification by the respective groups of shareholders, the concolidation will be effected within the near future. Since the continuing institution will be under the supervision of the Comptroller of the Currency, the Board of Governors feels that approval of the establishment of the proposed branch should be obtained from his Office. This could be accomplished by the consolidated bank's applying to the Comptroller of the Currency, promptly after consolidation becomes effective, for permission to establish the branch; or, if it is desired to have the branch in operation when the consolidation becomes effective, it might be feasible for The Providence Union National Bank to make the application either at the present time or immediately after the bank's stockholders ratify the consolidation agreement.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond

Reference is made to your letter of November 17, 1953, recommending that an extension of six months' time be granted the Maryland Trust Company, Baltimore, Maryland, in which to establish a branch at the intersection of Eastern Avenue and North Point Road in Baltimore County, Maryland. The establishment of this branch was approved by the Board of Governors on June 17, 1953, with the provision that it be established within six months from that date.

It appears that construction has not commenced on the shopping center in which the proposed branch is to be located and that completion of the project will be delayed until the late spring of 1955. You state that in the meantime an effort is being made to locate temporary quarters for the branch in the neighborhood.

It is the Board's general policy to refrain from approving the establishment of branches which cannot be placed in operation within a period of six months, and deviations from such policy must be fully justified. In this case, it is evident that considerable time would elapse before the branch can be established at the location heretofore approved, and the Board would prefer to reconsider the case in the light of conditions existing when the construction has reached a stage where it is possible to estimate with some accuracy when the branch could be opened for business or when a definite proposal can be made with respect to a temporary location of the branch and the time when it can be placed in operation.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago

The Board has given careful consideration to the application for full fiduciary powers forwarded with your letter of October 1, 1953, on behalf of The Elgin National Bank, Elgin, Illinois.

As you know, in acting upon applications of this kind, the Board gives special consideration to various facts and circumstances bearing upon the eligibility of the applicant to receive permission to exercise fiduciary powers. Important among these is the general condition of the bank, particularly the adequacy of its net capital funds in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, including the proposed exercise of trust powers. In view of the nature of the responsibilities involved in the exercise of fiduciary powers and the potential liabilities inherent in such undertaking, it would seem clear that fiduciary powers should not be granted to a national bank unless its capital position is such as to afford adequate protection not only to its depositors but to the settlors and beneficiaries involved in the fiduciary relationships in which it seeks to act. The inadvisability of a grant of fiduciary authority to a bank is even more clear when it is questionable whether or not its net capital funds are sufficient to afford adequate protection to its depositors.

Net sound capital is at an unsatisfactory level in relation to deposits and to risk assets of The Elgin National Bank. While capital ratios have recently been improved somewhat by the sale of $150,000 of real estate loans, the heavy investment in fixed assets emphasizes the need for additional capital funds in substantial amount to place this bank on a soundly capitalized basis with respect to the present volume and character of business under existing corporate responsibilities.

While not disregarding the capability of the bank's management, the generally satisfactory quality of the bank's assets or the effect of the local competitive situation, it is nevertheless the view of the Board that a broadening of corporate powers of the kind requested would be inappropriate until such time as the capital position of the bank has been improved at least to a point which will provide an acceptable relationship to the character and volume of its banking business. At such time the Board will be glad to consider a new application by the bank for fiduciary powers.

Following statements by Governor Robertson of the circumstances involved in each case and discussion based on Governor Robertson's comments, the letters were approved unanimously.

At this point Mr. Leonard, Director, Division of Bank Operations, entered the room.

Pursuant to the understanding at the meeting on November 6, 1953, there was a further discussion of the possibility of reducing the volume of operations at Federal Reserve Bank head offices and branches in large cities by the establishment of Federal Reserve Bank facilities in other locations. It was understood that this matter would be considered with representatives of the Federal Reserve Bank of Chicago who were to meet with the Board on December 7, 1953, to discuss the proposed building program at the head office of the Chicago Bank.

At the request of the Board, Mr. Leonard made a statement in which he pointed out that a decentralization of check transactions would pose problems, particularly in the Seventh Federal Reserve District, which would not be involved in a decentralization of currency operations due to the additional check sorts which would be required. With particular reference to the Chicago situation, Mr. Leonard listed certain factors which the Division of Bank Operations felt would be favorable to the establishment of additional facilities and certain factors which would be unfavorable. He also said that, if the Board wished, the

Division of Bank Operations would be prepared after the first of next year to begin a comprehensive study of the situation in each Federal Reserve district for the purpose of making recommendations to the Board regarding the establishment of facilities or additional branches.

At the conclusion of a discussion, it was understood that no action to institute a study of the need for facilities or additional branches would be taken until after the discussion on December 7 with representatives of the Federal Reserve Bank of Chicago.

Mr. Thomas then withdrew from the meeting.

The Secretary stated that inquiries had been recieved from several Federal Reserve Banks regarding the handling of a questionnaire on postal services which had been sent to the Banks recently by the National Industrial Conference Board as part of a study being made by that organization on a contract basis for the Senate Committee on Post Office and Civil Service. He explained that the National Industrial Conference Board had worked with representatives of the Federal Reserve Bank of New York in developing the questionnaire, that Mr. Leonard had obtained a copy of the questionnaire, and that it was felt that there was no reason why the Reserve Banks should not furnish the requested information.

Mr. Leonard added that he had seen a copy of the reply which one Federal Reserve Bank proposed to make and that it seemed to him to go too much into detail, while on the other hand a representative of the

National Industrial Conference Board called him on the telephone this morning and stated that replies from two other Federal Reserve Banks did not contain as much breakdown as desired. In the circumstances, Mr. Leonard conferred with Mr. Harris, Assistant Vice President, Federal Reserve Bank of New York, and was advised that the New York Bank would be willing to send to the other Reserve Banks a suggested breakdown of certain questions for use in preparing their replies. In response to a question by Governor Robertson, Mr. Leonard said that the National Industrial Conference Board was requesting information from more than 6,000 commercial enterprises in the course of its study.

Thereupon, unanimous approval was given to a telegram to the Presidents of all Federal Reserve Banks reading as follows:

Board has received telephone inquiries from some Federal Reserve Banks regarding questionnaire re postal services recently forwarded to Reserve Banks by National Industrial Conference Board in connection with a study of the use of postal services which the Conference Board has undertaken for the Senate Committee on Post Office and Civil Service.

Board sees no reason why each Reserve Bank should not furnish Conference Board with information requested.

In order that the replies may be prepared, so far as possible, on a similar basis to facilitate compilation, the Federal Reserve Bank of New York, which has been consulted by the Conference Board in connection with the preparation of the questionnaire, will send Monday a suggested breakdown for certain questions.

It will be appreciated if a copy of your reply is forwarded to the Board of Governors for its information.

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 November 25, 1953, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on November 23, by the Federal Reserve Banks of Kansas City and San Francisco on November 24, by the Federal Reserve Banks of Cleveland and Richmond on November 25, by the Federal Reserve Bank of Minneapolis on November 25 and 27, and by the Federal Reserve Bank of Dallas on November 27, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. George M. Van Doren, President, Bogota National Bank, Bogota, New Jersey, reading as follows:

> This refers to your letter of October 21, 1953, requesting a determination as to the status of the Winged City Corporation, Paterson, New Jersey, as a holding company affiliate.
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> From the information supplied the Board understands that the Winged City Corporation is a holding company affiliate of the Bogota National Bank, Bogota, New Jersey, by reason of the fact that it owns 3,294 of the 6,000 outstanding shares of common stock of such Bank; that the Company has never owned any other bank stock; and that the Company has never managed or controlled, directly or indirectly, any banking institution other than the Bogota National Bank.

In view of these facts, the Board has determined that the Winged City Corporation is not engaged, directly or indirectly, as a business, in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and accordingly, the Winged City Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If however, the facts should at any time differ from those set out above to an extent which would indicate that the Winged City Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

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

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

Reference is made to your letter of November 10, 1953, submitting the request of The State Bank of Defiance Company, Defiance, Ohio, for permission to retire its outstanding $75,000 capital debentures.

In view of your recommendation the Board of Governors consents to the retirement of the $75,000 debentures, provided the formal approval of the State authorities is obtained, and with the understanding that the capital accounts of the bank will be replenished in the amount of $75,000 through the sale of additional capital stock not later than February 15, 1954.

Approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

Reference is made to your letter of November 19, 1953, advising of the proposal of the Maryland Trust Company, Baltimore, Maryland, to remove its Park Lane Office in Baltimore from 2700-2702 West Cold Spring Lane to 4416-4418 Park Heights Avenue, the latter location being just around the corner from the present site.

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 Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

Enclosed is a copy of a letter dated November 19 from Mr. Merton Baltz, Cashier, First National Bank, Millstadt, Illinois, concerning the application of the Board's Regulation Q.

On the basis of the circumstances related by Mr. Baltz, it seems clear that his bank would be prohibited from paying interest on the time certificate described by him after the maturity thereof. A similar matter was covered by the correspondence with Mr. Stuart H. Mann, Vice President of the First National Bank, Louisville, Kentucky, copies of which were enclosed with the Board's letter to you of May 13, 1953.

It will be appreciated if your bank will make appropriate reply to Mr. Baltz who, it should be noted, has not been advised of this reference.

Approved unanimously.

Letter to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

This refers to the Board's letter to you dated April 14, 1953, regarding arrangements for sending some of the new members of its field staff of examiners to your Bank for three months of training in the Auditing Department prior to assumption of their duties with the field staff.

Pursuant to the arrangements made at that time, Messrs. Grady and Dow were sent to Richmond for indoctrination and, having completed their training, are now on duty with the field staff. Experience with this training program thus far has fulfilled the expectation that it would improve the quality of performance of new members of the field staff, and Chief Federal Reserve Examiner Lang and other members of the Board's staff are most favorably impressed with the thorough and well-organized program of training set up by General Auditor Brock.

Incidentally, you may be interested to know that other new members of the field staff have had similar training courses at the Philadelphia, Atlanta, and Dallas Reserve Banks.

In view of the favorable results of the training program, and inasmuch as there is normally some turnover in the personnel of the field staff, it is desired at this time to make arrangements with you for a continuing program of training some of the new members of the field staff at your Bank as occasion arises.

Having in mind that the program must be operated in such a manner that it will not place an undue burden on Mr. Brock and his department, it is contemplated that no more than two of the new men would be in training at your Bank at any one time and their entry into training would be staggered on an interval of at least one month. In each case, the period of training would be approximately three months. Other aspects of the arrangements would continue on the same basis as that described in the Board's letter of April 14, 1953; namely, the men, although working at the Federal Reserve Bank of Richmond, would nevertheless be employees of the Board, and the Board would pay their salaries and all related expenses together with their per diem in lieu of subsistence and travel expenses, including the expenses of their travel performed in connection with audits at the branches of your Bank. It would be distinctly understood, however, that Mr. Brock would be at liberty to make use of their services in the same manner as if they were employees of the Reserve Bank. It would, of course, be understood also that these men while in your Bank would conduct themselves in accordance with the rules, regulations, and customs of your Bank and of the department in which they are working.

Within the limitations stated above, detailed arrangements regarding each trainee would be worked out with Mr. Brock by the Board's Division of Examinations.

The Board will appreciate receiving your advice as to whether continuance of the program would be agreeable to you and any comments regarding the proposed program you may wish to make. It is understood, of course, that the arrangement can be altered or discontinued at any time if you should consider such action desirable.

Approved unanimously, together with similar letters to Mr. Bryan, President, Federal Reserve Bank of Atlanta, and Mr. Gentry, First Vice President, Federal Reserve Bank of Dallas.

S. R. Carpenter
Secretary