

12/2/53 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 2, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Vardaman
 Mr. Robertson
 Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Sloan, Director, Division of Examinations

There was presented a request that Mr. Allen, Director, Division of Personnel Administration, be authorized to travel to Kansas City and St. Louis, Missouri, during the period December 5-11, 1953, (rather than during the period December 2-4, 1953, as authorized by the Board on November 24, 1953) to review the personnel departments of the Federal Reserve Banks of Kansas City and St. Louis.

Approved unanimously.

The following draft of letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, which had been circulated among the members of the Board, was presented for consideration because the recommendation of the staff differed from the recommendation of the Dallas Bank:

This refers to your letter of November 9, 1953, submitting an application for full trust powers on behalf of The First National Bank of Artesia, Artesia, New Mexico.

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In this regard, it is observed that your executive committee recommends approval of the application subject to the provision that the capital funds of the bank be increased by \$100,000 from the sale of new common stock.

From the information which you have submitted in support of this application it would appear likely that, within a reasonable period of time, fiduciary business may be developed in sufficient volume to make operation of a satisfactorily organized trust department a valuable service adjunct for the applicant and one which will fill a definite community need for corporate fiduciary services. However, at the time of the latest examination of this bank, a rating of 2-B-F (group rating - 2) was assigned, predicated on an excessive portion of loans subject to classification and on the failure of capital funds to keep pace with a heavy and increasing loan volume. Also, the lack of management experience in the specialized field of fiduciary account administration attains added importance in considerations relating to this application than might be the case if the condition of the bank was wholly satisfactory and its capital account supported adequately the present volume and character of assets with a reasonable margin to protect against the responsibilities and potential liabilities accompanying fiduciary undertakings.

While agreeing fully with your recommendation that additional capital funds be provided by The First National Bank of Artesia in advance of an authorization extending its corporate activities into the trust field, it is the Board's view that the requested authority to exercise trust powers should not be granted on a conditional basis.

The Board will be glad to consider a new application by this bank for authority to exercise fiduciary powers at such time as its capital funds have attained a more satisfactory relationship to the volume of its banking activities and the character of its assets.

Approved unanimously.

At this point Messrs. Thurston, Assistant to the Board, and Solomon, Assistant General Counsel, entered the room.

The following draft of letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, which had been circulated among the

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members of the Board, was presented for consideration at the request of Governor Vardaman:

Reference is made to Mr. Crosse's telephone call of November 6, 1953, and the information forwarded to the Board by your bank on November 9, 1953, to the effect that Marine Midland Corporation is negotiating tentatively for the acquisition of the controlling stock of The Union National Bank of Troy, Troy, New York; that subsequent to such acquisition, if accomplished, it is contemplated that The Union National Bank of Troy would be merged with Marine Midland Corporation's subsidiary bank, Manufacturers National Bank of Troy, and in connection with the merger a branch would be established in the quarters of Union National and some \$600,000 of the combined capital structure of the two banks would be paid out.

On the basis of the preliminary information submitted to it, the Board of Governors feels that there may be some question as to its willingness to issue a voting permit to vote the stock of The Union National Bank of Troy, if acquired by the Marine Midland Corporation and if such a permit should be required. The Board understands that the Manufacturers National Bank of Troy, now controlled by the Corporation, operates three of the five commercial banking offices in Troy and holds about 44.3 per cent of the commercial bank deposits in the city. After consummation of the proposed merger, the continuing bank would operate four of the five commercial banking offices and hold approximately 64 per cent of commercial bank deposits. While not taking a position in the matter at the present time the Board, if called upon to consider an application for a voting permit, would want full information with respect to the apparently predominant competitive position to result from the proposed transaction and its effect within and upon the community.

During a discussion of the matter, it was brought out that Mr. Bayard F. Pope, Chairman of Marine Midland Corporation, had given informal advice of the contemplated transaction to the Federal Reserve Bank of New York in accordance with the request contained in the Board's

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letter of December 17, 1951, which was written in connection with the granting of a general voting permit to the Corporation to vote recently acquired stock of The National Chautauqua County Bank of Jamestown, Jamestown, New York.

Governor Vardaman stated that although he would not vote against the proposed letter, he questioned whether the Board should take a position in a matter of this kind until the stage had been reached where Board action was required. He also questioned the use of the percentage figures for deposits stated in the second paragraph of the letter, expressing the view that a decision by the Board in any case of this nature coming before it should rest on the circumstances existing at the time when the Board was called upon to make a decision. Governor Vardaman expressed doubt as to the advisability of continuing the outstanding request that Marine Midland Corporation advise the Board in advance of any contemplated acquisition of stock in additional banking institutions, pointing out that this arrangement was peculiar to Marine Midland Corporation.

Governor Evans stated that he would vote against the proposed letter because he felt that the acquisition by the Marine Midland Group of The Union National Bank of Troy and the merger of that bank with the Manufacturers National Bank of Troy would result in an undue concentration of banking business in the area. Therefore, he thought that the

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letter should indicate that the Board would not be willing to grant a voting permit if later applied for.

At the conclusion of the discussion, the letter to Mr. Wiltse was approved in the form set forth above, Governor Evans voting "no" for the reason which he had stated.

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

Chairman Martin referred to the discussion at the meeting yesterday with regard to the proposed sale of certain assets of the Reconstruction Finance Corporation to commercial banks and stated that later in the day he and Governor Robertson met with Mr. Cravens, Administrator of the Corporation, to discuss the matter.

At Chairman Martin's request, Governor Robertson summarized the discussion, stating that the plan now described by Mr. Cravens differed considerably from the proposal outlined earlier by Mr. J. P. Dreibelbis to Mr. Vest, the Board's General Counsel, as reported in Mr. Vest's memorandum to Chairman Martin which was discussed at yesterday's meeting. Governor Robertson also stated that Mr. Cravens apparently did not expect the Board to take any position with respect to the proposal, at least until such time as the plan had become more definite and the Board had received a written statement describing it. He said that according to Mr. Cravens it was not contemplated that the Federal Reserve Banks, if called upon to

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act as fiscal agents, would be expected to decide what discretionary actions should be taken in servicing loans which had been sold to the commercial banks. Instead, a small organization would be set up within the Treasury Department, and a bank purchasing loans from the Reconstruction Finance Corporation would designate local banks to handle the collection of the loans, foreclosures, and similar matters. The Federal Reserve Banks merely would transmit information back to the office to be established in the Treasury Department and transmit funds remitted by the collecting banks. Decisions on compromise settlements and other matters of that nature would be made by the Treasury Department.

Governor Robertson said it was made clear to Mr. Cravens that the Board did not wish to participate in a decision as to whether the proposed plan should be placed in effect and that the Board could not take any position with regard to the plan until the details had been submitted in writing.

Governor Robertson then reported that, pursuant to the understanding at the meeting on October 9, 1953, he had discussed with representatives of the Federal Deposit Insurance Corporation, and also with the Office of the Comptroller of the Currency, whether any action should be taken to raise the maximum prescribed rates of interest on time and savings deposits at member and nonmember insured banks. He said that

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no appreciable number of requests for such action had been received by the Board or the Federal Deposit Insurance Corporation and that as of the moment there seemed to be no reason to consider raising the current maximum rates.

Following a discussion, it was agreed unanimously that no action to increase the currently prescribed maximum rates of interest payable by member banks on time and savings deposits should be taken by the Board at this time. It was also agreed that Mr. Sproul, President of the Federal Reserve Bank of New York, should be advised informally of the Board's position because of the question raised in his telegram of October 8, 1953, advising of the action taken on October 7 by the New York State Banking Board.

During the course of the foregoing discussion Messrs. Riefler, Assistant to the Chairman, and Young, Director, Division of Research and Statistics, entered the room and at its conclusion Messrs. Sloan, Horbett, and Solomon withdrew from the meeting.

Reference was made to the understanding at the meeting on September 10, 1953, that instead of having a review of all of the Federal Reserve Banks before consideration of the Reserve Bank budgets for 1954, the Board would review each Bank following circulation of the report of examination. In accordance with this understanding, an informal review of the Federal Reserve Bank of New York based on the report of examination

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of that Bank as of June 12, 1953, was begun on October 26 but not completed.

Chairman Martin proposed that the procedure be modified and that Governor Robertson be requested to review each Federal Reserve Bank with appropriate members of the staff following receipt of the report of examination of that Bank, after which Governor Robertson would present to the Board a summary statement of the matters discussed.

The plan suggested by Chairman Martin was approved unanimously on an experimental basis, with the understanding, however, that there would be no change in the procedure for circulating reports of examination of the Federal Reserve Banks to all of the members of the Board or in their responsibility to read, and comment on, the matters covered by the reports.

Reference was made to a draft of letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of November 24, 1953, regarding the proposed plan submitted by Bankers Trust Company, New York, New York, to merge into itself the Bankers Safe Deposit Company, a subsidiary institution which operates safe deposit facilities at the Bankers Trust Company's main office and twelve branches.

It is understood that the Bankers Trust Company, New York, New York, does not now operate a safe deposit business in its own name, but that it is authorized to do so under the provisions of paragraph 3 of Section 96 of the New York Banking Law. It is also understood that the assets of the safe deposit company consist principally of cash, United States Government securities, vaults and equipment.

Based on the information submitted, the Board of Governors concurs in your opinion that the proposed merger would

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not result in a material change in the general character of the assets of or broadening in the functions now exercised by Bankers Trust Company, as contemplated in the general condition of membership to which it is subject and that the Board's approval is not required. It is felt, however, that the member bank's attention should be directed to the provisions of Section 18(c) of the Federal Deposit Insurance Act so that proper consideration may be given as to whether or not approval of the transaction by the Federal Deposit Insurance Corporation is required.

In response to a question by Governor Vardaman, Governor Robertson stated that there was no evidence of a trend on the part of banks which had organized subsidiary corporations to operate safe deposit facilities or to hold bank premises to merge such companies back into themselves. He also discussed reasons which had influenced banks to establish separate companies for these and similar purposes and expressed the opinion that the decision usually was based on circumstances prevailing in individual cases.

Following further discussion, the letter to Mr. Wiltse was approved unanimously in the form set forth above.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Mills present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 1, 1953, were approved unanimously.

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Letter to Mr. Willis, Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of November 23, 1953, advising that Mr. George Garvy, Senior Economist, Research Department, has been granted a leave of absence without pay for a period of approximately six months commencing early in January 1954, in order to enable him to serve as Public Finance Adviser to a general survey mission that is being organized to make a thorough study of the economy of the Federation of Malaya and the Crown Colony of Singapore, and to formulate recommendations for a long-term development program. It is noted from your letter that the International Bank for Reconstruction and Development requested the services of Mr. Garvy and that this organization is assuming Mr. Garvy's compensation and expenses in connection with the assignment.

The Board of Governors interposes no objection to the arrangement with respect to Mr. Garvy as described in your letter.

Approved unanimously.

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

In accordance with the request contained in your letter of November 19, 1953, the Board of Governors approves the payment of salary to Stanislaw K. Szeterlak, effective January 1, 1954, at the rate of \$4,004 per annum, which exceeds by \$494 the maximum established for the grade in which his job is classified.

Approved unanimously.

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

In a letter to the Office of the Comptroller of the Currency, dated April 30, 1951, the Board of Governors

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expressed the view that

"foreign branches of national banks, as well as offices of national banks in the United States, are required in their operations with respect to the execution of acceptances to observe the requirements, both as to purposes and limitations, of paragraphs 7 and 12 of section 13 of the Federal Reserve Act, as amended."

In your letters to the Board dated June 13, 1952, and April 20, 1953, with enclosures, you joined with The Chase National Bank of the City of New York and the National City Bank of New York in requesting that the Board reconsider this interpretation.

The memoranda of counsel for the two banks (transmitted with your letters), Mr. Trimble's memorandum of April 21, 1952, which he furnished to the Board's General Counsel, and other material bearing on this subject have all received detailed consideration. In addition, representatives of the banks and of the Board met for discussion of the problem on several occasions, most recently on October 29, 1953. The Board also requested the views of the Comptroller of the Currency on this matter, but no comments have been received from that Office.

The following outlines briefly the Board's conclusions and the reasons therefor.

For many years it has been the view of the Board that national banks were not empowered to accept time drafts prior to the enactment of the Federal Reserve Act in 1913. Even if such power had existed prior to that time, however, it is the opinion of the Board, based upon the language of the statutes and their legislative history, that paragraphs 7 and 12 of section 13 are now the measure of the acceptance powers of national banks in both domestic and foreign operations, and that the purpose and effect of those paragraphs were to limit such powers to those enumerated therein. The Board feels that it could not justifiably conclude either

- (1) That section 25, which authorizes national banks, with the permission of the Board, to establish foreign branches, had the effect of conferring additional acceptance powers upon foreign branches either by affirmative grant or by suspending as to such branches (subject to reinstatement by Board action) the limitations of section 13, or
- (2) that the regulatory authority conferred by section 25 is sufficient to authorize the Board,

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by regulation, to make paragraphs 7 and 12 of section 13 inapplicable to foreign branches. Consequently, the Board is compelled to reaffirm the view expressed in 1951, quoted above.

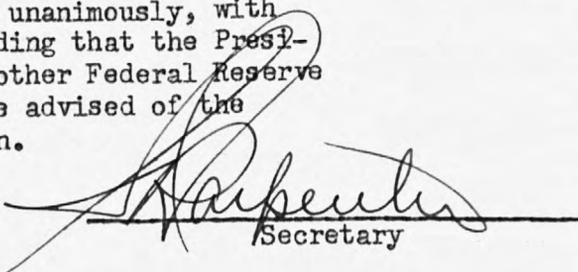
Before reaching this conclusion, the Board carefully considered the several arguments advanced by counsel for the banks, including principally the arguments (1) that the limitations prescribed by section 13 of the Federal Reserve Act upon the acceptance powers of national banks are not applicable to foreign branches, and (2) that in any event the Board is authorized by section 25 to relieve foreign branches from such limitations. After considering the arguments and relevant evidence, the Board has been unable to find adequate basis, either on the face of the statutes or in their legislative history, for an interpretation other than that set forth above.

In connection with the matter of acceptance credits created to finance traffic in rice within Cuba, it has been suggested by counsel for the National City Bank of New York that such traffic might be regarded as "transactions involving the domestic shipment of goods", so that such acceptances would be within the purview of paragraph 7 of section 13 of the Federal Reserve Act. The Board is satisfied that the quoted provision covers only the "shipment of goods within the United States" (see Regulation C, section 1(a)(2)) and should not be interpreted as including shipments entirely within Cuba.

Some of the arguments presented on behalf of the banks relate to the desirability of broader acceptance powers for national banks. Such contentions should, of course, be addressed to Congress. Needless to say, the Board cannot express any view as to the advisability of legislation on this matter until specific proposals have been drafted.

You are requested to inform the two banks of the Board's conclusions and the reasons therefor, stated above.

Approved unanimously, with the understanding that the Presidents of all other Federal Reserve Banks would be advised of the Board's action.


Secretary