

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 18, 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. Thurston, Assistant to the Board  
Mr. Allen, Director, Division of Personnel Administration

There was presented a request from Mr. Benner, Assistant Director, Division of Examinations, for authority to travel to Chicago, Illinois, December 27-31, 1953, for the purpose of making a survey of the Bank Examination Department of the Federal Reserve Bank of Chicago.

Approved unanimously.

Chairman Martin referred to a memorandum from the Division of Personnel Administration dated December 17, 1953, recommending that, in view of the action taken by the President with respect to Government employees generally, the Board excuse all employees from work for four hours on December 24 and December 31, 1953, without charge to annual leave. It would be understood that in those instances where the regular assignment hours are other than from 8:45 a.m. to 5:15 p.m., arrangements would be made to dismiss employees four hours early so that they might have the half-holiday. The memorandum also stated that it was anticipated that the cafeteria would be open only from 11:00 a.m. to

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12:30 p.m. on those days and that the snack bar and staff dining rooms would be closed.

Approved unanimously.

Reference was made to the recommendation of the Conference of Presidents of the Federal Reserve Banks, presented to the Board at the joint meeting of the Board and the Presidents on December 15, 1953, that there be established a high-level policy committee composed of one President, one member of the Board of Governors, and one high official of the Treasury Department to make a study of the possibility of continued additional requests for the System to take over depository or fiscal agency operations. Chairman Martin suggested that the Board request Governor Szymczak to serve as its representative on this committee.

Chairman Martin's suggestion was approved unanimously, with the understanding that Chairman Martin would take up with the Treasury informally the matter of the creation of the committee.

Governor Robertson referred to the action of the Board on December 11, 1953, advising the Federal Reserve Bank of Boston that it would be unwilling to approve the retirement of 2500 shares of preferred stock by Hadley Falls Trust Company, Holyoke, Massachusetts. Governor Robertson reviewed discussions that had taken place subsequently with Mr. Wallace, President of the Trust Company, and Mr. Bonner, Counsel, as a result of which arrangements were being made for improving the risk

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asset position of the bank and eliminating classified assets. He stated that in view of the contemplated actions, the Boston Federal Reserve Bank recommended that the Board now approve the proposed retirement of stock and that he would concur in that recommendation.

Thereupon, unanimous approval was given to a letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of December 15, 1953, and enclosure with respect to the request of the Hadley Falls Trust Company, Holyoke, Massachusetts, for reconsideration of its proposal to retire 2,500 shares of preferred stock at a cost of \$250,000.

Careful consideration has been given again to all of the information available with respect to the condition of the trust company, the anticipated improvement during the next five years, and to your views as to the ability of the management to correct the situation, with the result that the Board has decided to approve the retirement of 2,500 shares of preferred stock by the Hadley Falls Trust Company.

The Board feels that the capital position of the trust company is unsatisfactory and that a recapitalization program should be worked out as soon as possible. In connection with this retirement of preferred stock, it is understood that other steps are contemplated which will be helpful in working out plans for a future recapitalization program for the institution.

Please advise the trust company accordingly.

In accordance with the understanding at the meeting on December 2, 1953, Governor Robertson reviewed the organizational structure, management, and operating procedures of the Federal Reserve Banks of New York and Minneapolis as disclosed by reports of examinations and other

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information available in the Board's offices concerning those Banks. Following a discussion of Governor Robertson's reports, Chairman Martin reiterated the view expressed previously that these reviews of Federal Reserve Bank operations were a supplement to and not in lieu of the procedure whereby reports of examinations of both Federal Reserve Banks were circulated to all of the members of the Board, each of whom had a responsibility to read such reports and comment on matters covered in them.

It was understood that certain matters referred to by Governor Robertson during his statement would be discussed informally with the Chairmen and Presidents of the Federal Reserve Banks of New York and Minneapolis when they are invited to Washington to discuss the overall management and operations of the respective Banks.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on December 14, by the Federal Reserve Bank of San Francisco on December 15, and by the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, and Kansas City on December 17, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

All of the members of the staff except Mr. Allen then withdrew and the Board went into executive session.

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Following the meeting, Chairman Martin informed the Secretary that during the executive session, pursuant to Executive Order Number 10450 and the Board's employment security program, the Board approved the designation of the following positions as "sensitive" because of their responsibilities under or their close association with the security program:

Director, Division of Personnel Administration, who is serving as Personnel Security Officer  
(Dwight L. Allen)

Assistant General Counsel, Legal Division, who is serving as Legal Officer  
(G. Howland Chase)

Personnel Technician, Division of Personnel Administration, who is assisting Mr. Allen in connection with the program  
(R. H. Van Devanter)

Secretary, Division of Personnel Administration, who is assisting Messrs. Allen and Van Devanter in connection with the program  
(Miss Sylvia I. Clements)

These designations were made with the understanding that the Board would give further consideration to what additional positions in the Board's organization should be designated as "sensitive" under Executive Order Number 10450.

It was also understood that Chairman Martin would discuss with the appropriate persons at the White House the question of clearance of members of the Board of Governors under the security program.

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

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 17, 1953, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Transfer, effective January 1, 1954

Billie Jo Hickman, Special Assistant Federal Reserve Examiner, Division of Examinations. Transfer to the position of Secretary in the Division of Personnel Administration for a period of one year, with no change in her present basic salary at the rate of \$3,535 per annum.

Salary increases, effective December 20, 1953

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Helen E. Cook, Review Classifier		\$3,785	\$3,910
Cora Lee Hatch, Review Classifier		3,785	3,910
<u>Research and Statistics</u>			
Bernard N. Freedman, Economist		6,140	6,340
<u>Bank Operations</u>			
Mary F. Gifford, Statistical Clerk		3,175	3,255
Eleanor I. Klein, Statistical Clerk		3,415	3,495
<u>Administrative Services</u>			
Elsie N. Carrick, Assistant Supervisor, Stenographic Section		3,910	4,035
Jean Startup, Stenographer		3,415	3,495
Henry Bates, Messenger		2,712	2,792

Approved unanimously.

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Letter to the Board of Directors, Wellesley Trust Company,  
Wellesley Hills, Massachusetts, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment and operation of a branch in the Overbrook section of Wellesley, Massachusetts, on the south side of the Boston-Worcester Turnpike approximately 500 feet from the Natick-Wellesley line, by Wellesley Trust Company, Wellesley Hills, Massachusetts, provided the branch is established within six months from the date of this letter.

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

Letters to the Board of Directors, Hempstead Bank, Hempstead,  
New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the application of the Hempstead Bank, Hempstead, New York, for permission to establish and operate a branch at the southwest corner of Front Street and Merrick Avenue, East Meadow, New York, provided (a) that prior to establishment of the branch the bank's capital structure is increased by not less than \$200,000 through the sale of additional stock and (b) that the branch is established within six months from the date of this letter.

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 at 29 Jackson Avenue, Syosset, New York, by Hempstead Bank, Hempstead, New York, provided the merger with the Bank of Syosset, New York, is accomplished substantially in accordance with the plan submitted and the branch is established within six months from the date of this letter.

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

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Letter to the Board of Directors, The City Bank Company,  
Lorain, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment and operation of a branch at the corner of Grove Avenue and Homewood Drive, Lorain, Ohio, by The City Bank Company, Lorain, Ohio, provided the branch is established by May 20, 1954.

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

Letter to The First National Bank of Shelby, Shelby, North  
Carolina, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, the exercise of such authority to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary power which The First National Bank of Shelby is now authorized to exercise will be forwarded to you in due course.

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

Letter to The First National Bank of South Carolina of Columbia,  
Columbia, South Carolina, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when



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not in contravention of State or local law, as trustee and registrar of stocks and bonds, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The First National Bank of South Carolina of Columbia is now authorized to exercise will be forwarded to you in due course.

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

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

As recommended in your letter of December 8, 1953, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, the investment of not more than \$120,000 in bank premises by the First State Bank, Monahans, Texas.

Approved unanimously.

Letter to The American National Bank of Amarillo, Amarillo,  
Texas, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

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A formal certificate indicating the fiduciary powers which The American National Bank of Amarillo is now authorized to exercise will be forwarded to you in due course.

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

Letter to Mr. Shuford, Vice President and General Counsel,  
Federal Reserve Bank of Dallas, reading as follows:

This is in response to your letters of November 12 and November 13, 1953, with enclosures, in which you request the views of the Board with respect to a question which has arisen in your district as to whether certain promissory notes given to a member bank and evidencing loans for agricultural purposes are eligible for discount under Section 13a of the Federal Reserve Act and as collateral for advances made to member banks under Section 13.

The circumstances which give rise to the question involve the following facts, some of which are assumed, as stated in your letter.

A member bank makes a loan to a rancher which is evidenced by a note negotiable on its face and secured by a chattel mortgage. Subsequently, the rancher, being in need of additional operating capital, makes application to the Farmers Home Administration for a disaster loan. However, before that Administration approves a disaster loan, it requires the member bank to enter into an agreement with the Administration, to which the rancher is not a party, wherein the member bank agrees that it will not, before a stipulated time, "disturb the applicant by foreclosure or otherwise...in his possession or use of any property on which the (member bank) holds a lien" and will not assign any lien instrument covering the property without first notifying the assignee of the standby agreement. The disaster loans and the standby agreement are for a period of no longer than three years. Although not a part of the standby agreement, it is understood that at least a portion of the

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gross income from the rancher's operations is to be divided by the Farmers Home Administration and the member bank on some agreed basis, usually fifty-fifty.

The questions presented by the above facts are twofold--(1) Does the standby agreement operate as "an extension" of the maturity of the note for a period equal to the effective period of the standby agreement, thus exceeding the nine months maximum provided in Regulation A; and (2) Does the standby agreement render the note nonnegotiable, and thus ineligible under Regulation A.

The Board agrees with your conclusion that the standby agreement does not operate as an extension of the note since the maker was not a party to the agreement. Nor does the standby agreement, on the facts presented, prevent the holder of the note, whether the member bank or an assignee having notice of the standby agreement, from suing on the note when it matures although, of course, any attempt to foreclose the chattel mortgage would violate the agreement with Farmers Home Administration. Also, as you have indicated, no circumstance exists which would prevent the rancher from paying the debt at any time if he has the funds. In fact, he is expected to pay something from time to time to both Farmers Home Administration and the bank. In the State of Texas, at least, the case you have cited, Tsesmelis v. Sinton State Bank, et al., 53 S.W. 2d 461 (1932), would seem to be adequate authority for the proposition that the right to pay the debt at any time "of itself is fatal to the claim of extension." The Board has also noted your reference to Simpson, et ux v. McDonald, et al., 179 S.W. 2d 239, (Supreme Court of Texas 1944), where it was held that a note may not be extended, without notice, at the option of the holder, thus lending support to the view that the standby agreement in question does not operate as an extension of the note.

The second question bearing on the eligibility of the note for discount and as collateral for advances is whether the standby agreement renders the note nonnegotiable. The Board considers that this must be answered in the negative since the maker of the note was not a party to the standby agreement, nor was it entered into contemporaneously with the note. The fact that the Federal Reserve Bank at the time the note was submitted for discount or as collateral was informed of the standby agreement certainly does not render the note, which continues to be negotiable on its face, nonnegotiable.

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While the Board concurs in your views on both the question of extension and negotiability insofar as the laws of Texas are concerned, it should be made clear that if the laws of another State should be involved, a different conclusion might be reached. In other words, the question of both extension and negotiability are controlled by local law, which of necessity must be resolved in each case by the Reserve Bank.

Obviously the Board cannot express an opinion on what the legal result might be in the event a note bore some notation either making reference to the standby agreement or providing that the note is subject to such agreement. Any generalization as to the legal result in such cases would be meaningless since each case would have to be decided on the basis of the particular notation in question in accordance with local law.

What has been said above relates only to the question of technical eligibility for discount or as collateral for advances. It does not, of course, relate to the question whether a note of the kind under consideration should be accepted for discount or as collateral for an advance.

Approved unanimously.

Letter to Mr. Elliot H. Stein, President, Esswest Company, 408 Olive Street, St. Louis, Missouri, reading as follows:

This refers to your letter of November 18, 1953, requesting a determination as to the status of your Company as a holding company affiliate.

From the information supplied the Board understands that the Esswest Company, St. Louis, Missouri, owns 1,626 of the 2,000 outstanding shares of common stock and 1,458 of the 2,200 shares of preferred stock of the Southwest Bank of St. Louis, St. Louis, Missouri, but does not, directly or indirectly, own or control any stock of or manage or control any other banking institution.

In view of these facts, the Board has determined that the Esswest Company, St. Louis, Missouri, 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 Esswest Company 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.

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If, however, the facts should at any time differ from those set out above to an extent which would indicate that the Esswest Company 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 St. Louis.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency) reading as follows:

Reference is made to a letter from your office dated October 20, 1953, enclosing photostatic copies of an application to organize a national bank at Sunnyvale, California, and requesting a recommendation as to whether or not the application should be approved.

We have received a report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco setting forth information with respect to the factors usually considered in connection with such applications. On the basis of this report, all factors appear favorable except that definite arrangements have not been made for the management of the bank. It is noted that Sunnyvale is now served by branches of two San Francisco banks, and there may be some doubt as to the need of additional banking facilities. However, we are informed that an additional bank in the town would be in the public interest. After considering all relevant factors, the Board recommends approval of the application provided the operating management to be selected is satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

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Letter to the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that the Bank of Belmont Shore, Long Beach, California became a member of the Federal Reserve System on December 14, 1953, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act.

Approved unanimously.



Secretary