

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 22, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Director, Division of
Research and Statistics
Mr. Allen, Director, Division of
Personnel Administration

On October 21, 1953, the Board agreed to loan Mr. Koch, Chief of the Banking Section, Division of Research and Statistics, to the Council of Economic Advisers until the end of 1953, or shortly thereafter, in order that he might serve as chairman of a task force assigned to study measures directed toward strengthening the financial system of the country and increasing its contribution to economic stability. The Board's action provided that Mr. Koch would remain on the pay roll of the Board on a nonreimbursable basis.

At this meeting Chairman Martin presented a letter dated December 18, 1953, from Mr. Neil H. Jacoby, member of the Council of Economic Advisers, requesting that the Board extend the period of Mr. Koch's loan to the Council until January 28, 1954, Mr. Jacoby stating that Mr. Koch's services were urgently needed until the time of presentation of the Economic Report to Congress by the President.

Following a discussion,
the Board agreed unanimously

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to extend the period of Mr. Koch's loan to the Council of Economic Advisers until January 28, 1954, with the understanding that Mr. Koch would continue on the Board's pay roll on a nonreimbursable basis during the additional period of service.

Mr. Young then withdrew from the meeting.

Pursuant to the decision of the Board at the meeting on January 29, 1953, that at the time of the annual consideration of salaries of assistant division heads in the Board's staff, the Board would discuss the matter in advance and inform the respective division heads, through the Director of the Division of Personnel Administration, as to the basis on which increases were to be considered and recommended to the Board, there was a discussion of the basis on which increases should be considered at the present time.

It was agreed that in line with the emphasis on economy, consideration of the annual increases for assistant division heads should be on a more conservative basis than heretofore and that increases should be recommended only in those cases where the individual had assumed additional responsibilities of a material nature during the past year for which he had not been compensated or where his performance had been unusually outstanding.

Chairman Martin stated that in accordance with the understanding at the meeting on December 16, 1953, he had talked with Mr. Alexander,

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Chairman-designate of the Federal Reserve Bank of St. Louis, who advised that he favored the appointment of Mr. Caffey Robertson as Deputy Chairman of the Bank for the year 1954.

Thereupon, the Board by unanimous vote appointed Mr. Robertson Deputy Chairman of the Federal Reserve Bank of St. Louis for the year 1954.

Chairman Martin then read a letter dated December 17, 1953, from Mr. Virden, Chairman of the Federal Reserve Bank of Cleveland, containing information concerning Mr. Anthony Haswell, President of the Dayton Malleable Iron Company, Dayton, Ohio, who was recommended by Mr. Virden for appointment as a director of the Cincinnati Branch for the three-year term beginning January 1, 1954.

Following a discussion, unanimous approval was given to a telegram to Mr. Haswell reading as follows:

Board of Governors of the Federal Reserve System has appointed you director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland for three-year term beginning January 1, 1954, and will be pleased to have your acceptance by collect telegram.

It is understood that you are not a director of a bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland.

Mr. Allen then withdrew from the meeting.

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Mr. Carpenter reported receipt of a telephone call from Mr. Myron R. Bone, Vice President of the American Industrial Bankers Association, who stated that members of the board of directors of the Association were meeting in Washington on February 4 and 5, 1954, and asked whether a visit to the Federal Reserve Building could be arranged on February 5.

Following a discussion, it was agreed unanimously to extend an invitation to the directors of the American Industrial Bankers Association to visit the Board on February 5 for luncheon and a conference with members of the Board and the staff, with the understanding that the cost of the luncheon would be paid by the Board.

Governor Mills referred to the duties performed by Mr. Bethea, Director of the Division of Administrative Services, as alternate to the Chairman of the Board on the Interdepartmental Savings Bond Committee (which promotes the sale of United States savings bonds through the pay roll deduction plan) pursuant to his designation by the Board on May 19, 1948. He said it was his understanding that Mr. Bethea would like to be relieved of this responsibility and that, if so, he would suggest the designation of Mr. Fauver, Assistant to Mr. Thurston, to replace Mr. Bethea on the Committee.

Following a brief discussion of who might be designated to serve in this capacity if it were ascertained definitely that Mr. Bethea did not wish to continue, Chairman Martin suggested that Governor Mills have

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a further discussion with Mr. Bethea and bring the matter to the attention of the Board again.

This suggestion was approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 21, 1953, were approved unanimously.

Memorandum dated December 18, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Winfield S. Smith, Economist in that Division, be accepted effective January 8, 1954.

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 December 14, 1953, the Board of Governors approves the payment of salary to the following building employees at the rates indicated, which exceed the maximums established for the grades in which their jobs are classified.

<u>Name</u>	<u>Annual Salary</u>
Shelby L. Wimberly	\$5,098
Sylvester D. Pilon	5,098
Charles Barrett	5,098
Stanley J. Nycz	3,877
Dominik Podlesny	3,809

Approved unanimously.

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

The Board of Governors approves the payment of salaries to the following officers at the rates indicated for the period January 1, 1954 through December 31, 1954. These rates are those stated in your letter of December 11, 1953, as having been fixed by your Board of Directors.

<u>Name</u>	<u>Official Title</u>	<u>Annual Salary</u>
John J. Hofer	Assistant Vice President	\$8,500
Orville O. Wyrick	Assistant Chief Examiner	9,500
Gerald T. Dunne	Counsel	7,200

Approved unanimously.

Letter to the Board of Directors, Kent City State Bank, Kent City, Michigan, 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 Chicago.

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

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

On September 14, 1953, you were requested to advise The First Commercial Bank (formerly called Bank of Rogers Park), Chicago, Illinois, that the aggregate amount of its capital funds is inadequate, and pursuant to the provisions of Section 7 of Regulation H issued by the Board of Governors, such capital funds should be increased through the sale of additional common stock for cash to

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provide not less than \$400,000 net additional capital funds. It was also requested that the bank inform you within 60 days of the steps it would take to comply with this request.

We are in receipt of your letter of November 16 in which you state that the above request was transmitted to the Board of Directors of The First Commercial Bank on September 16, 1953. Your letter enclosed a reply from the President, Mr. Harold H. Stout, of The First Commercial Bank stating that directors of the bank and other stockholders with whom the above request was discussed could not be prevailed upon to purchase additional stock at more than one-half its actual value, since no cash dividend has been paid to stockholders. This circumstance, together with general conditions confronting the bank, virtually precludes the sale of common stock according to Mr. Stout. The bank proposes, therefore, to issue capital debentures for a long term with a sinking fund arrangement. Neither the amount of the debentures to be issued nor the terms thereof are mentioned in Mr. Stout's letter.

On December 9 you discussed this proposal with Mr. Henry Benner, Assistant Director of the Division of Examinations, and stated that you previously had assured the bank that increasing capital funds through an issue of debentures was unacceptable, and that you had not changed your opinion in this respect.

It is requested that you advise the bank that the issuance of capital debentures is not an acceptable substitute for additional common stock, and the Board must, therefore, reiterate its request of September 14 that new capital in the amount of \$400,000 net cash be supplied through the sale of additional common stock.

It would also seem to be desirable that a new examination of the bank be started as soon after January 1 as is practicable. It is suggested that an explanatory statement be made in the report of examination in respect to the recent occurrence of so substantial an increase in the earnings of the bank. The bank should be advised to inform you of the steps it will take to increase its capital funds not later than February 1, 1954.

Approved unanimously.

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

Reference is made to your letter of December 11, 1953, enclosing a certified copy of a resolution adopted by the board of directors of The First State Bank, Celina, Texas, signifying its intention to withdraw from membership in the Federal Reserve System and an accompanying letter signed by C. B. Johnson, President of the bank, requesting a waiver of the six months' notice of such withdrawal. It is understood that the bank has applied to the Federal Deposit Insurance Corporation for continuance of insurance of its deposits.

In accordance with the bank's request the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw was first given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

Approved unanimously.

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

Reference is made to your letter of November 19, 1953, concerning the capital account of the First State Bank of Green's Bayou, Houston, Texas. The Board of Governors has reviewed the condition of the bank, as disclosed by examination reports dating from the time of the bank's organization, and the information contained in your letter. As a result, it is the Board's opinion the bank is undercapitalized and that immediate steps should be taken to obtain a correction.

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It is requested that you advise the bank that, pursuant to membership condition numbered 2 which was ratified by the bank's board of directors at the date of the bank's admission to membership, and also pursuant to provisions of Section 7 of Regulation H issued by the Board of Governors, the bank's capital should be increased through the sale of additional common stock for cash to net not less than \$50,000 additional capital. It is further requested that the bank advise within 90 days the steps it will take to comply with this request.

Approved unanimously.

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

This refers to your letter of July 30, 1953, to Mr. Sloan, transmitting a copy of the report of examination of Transamerica Corporation made by an examiner for the Federal Reserve Bank of San Francisco as of December 31, 1951, and enclosing a draft of a proposed letter of transmittal of the report to the holding company affiliate.

It is noted that the proposed letter and the report of examination (page 122) indicate that Bank of America N.T.&S.A. is an affiliate of Transamerica Corporation and that, therefore, affiliate relationships exist between the bank and all of the subsidiaries of the corporation. The report of examination (pages 9 and 122) states that unsecured loans made by the bank to certain subsidiaries of the corporation were in violation of Section 23A of the Federal Reserve Act, which requires that loans to affiliates of the bank be secured by specified types of collateral.

The information contained in the report of examination does not show that the subsidiaries of the corporation to which the unsecured loans were made by the bank are affiliates of the bank within the meaning of the term "affiliate" as defined in Section 2(b) of the Banking Act of 1933. However, under the caption "Voting Permits and Related Agreements," on page 8 of the report of examination, it is stated that Transamerica Corporation "appears to have complied with agreements made in connection with obtaining the voting permits except as noted below." Since no other

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violation of the voting permit agreement is discussed in the report, it seems probable that it was intended to show the unsecured loans discussed above as violations by Transamerica Corporation of the agreement executed as a condition to the issuance to it of a general voting permit. Violation of such agreement would have occurred if Transamerica Corporation failed to "take all necessary action within its power to prevent any of its subsidiary banks....from....making, any loans or extensions of credit to.....any of its subsidiaries....except within the same limitations and subject to the same conditions and provisions as are applicable under Section 23A of the Federal Reserve Act to such transactions involving member banks and their affiliates." Inasmuch as the information shown in the report of examination with respect to the unsecured loans is not as of a current date, it is suggested that the open section of the report of examination and the proposed letter to Transamerica Corporation be revised to eliminate references to nonconformance of the unsecured loans with the provisions of Section 23A. Such references may, of course, be shown in the confidential section of the report.

On page 117 of the report of examination, in the material regarding control of Bank of America N.T.&S.A., the following paragraph appears:

The Board of Governors of the Federal Reserve System has stated that it is of the opinion that Transamerica Corporation controls the election of a majority of the Board of Directors of the Bank of America N.T.&S.A. and is therefore a holding company affiliate of that bank within the meaning of the definition contained in Section 2(c) of the Banking Act of 1933. The principal bases for the Board's determination appear to be contained in Paragraph 5(c) et seq. of the Board's Findings as to the Facts, Conclusion, and Order in connection with the Transamerica Clayton Act Proceedings adopted on March 27, 1952, and may be summarized as follows:

In view of the fact that the questions of law involved in the Clayton Act proceeding and in the interpretation of the definition of a holding company affiliate contained in the

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Banking Act of 1933, although similar, are not the same, it is felt that it would be preferable to substitute the following for the paragraph quoted above:

The following factors with respect to control of Bank of America N.T.&S.A. by Transamerica Corporation are summarized from the Board's Findings as to the Facts, Conclusion and Order adopted March 27, 1952, in the Transamerica Clayton Act proceeding:

In the section of the report of examination devoted to Bank of America N.T.&S.A. (pages 116-131, inclusive) it is noted that certain information is set forth which may have been obtained either from the bank's reply to the questionnaire submitted to it in connection with the examination of Transamerica Corporation, or from unpublished reports of the bank on file with the Federal Reserve Bank of San Francisco. The information referred to is that regarding shareholders of Bank of America N.T.&S.A., its earnings, the shares of the bank's stock owned by its directors, and their business connections. Also, in the section of the report of examination devoted to Bank of America, New York, wholly-owned by Bank of America N.T.&S.A. (pages 132-134, inclusive), it is stated that the information presented was obtained from reports of examinations made by examiners for the Board of Governors and from reports of condition prepared by the bank. In view of the denial by Transamerica Corporation and Bank of America N.T.&S.A. of any affiliation with each other, and having in mind that the information involved does not seem to be of particular importance in the report of examination of the corporation, it is felt that the report should not contain information which might serve as a basis for question as to violation of confidential sources.

It will be appreciated if you will furnish to us revised copies of the pages of the report of examination affected by the foregoing suggestions and comments, together with a copy of the letter of transmittal to the holding company affiliate of its copy of the report.

Approved unanimously.

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

This refers to your letter of December 9, 1953, regarding assignments of certificates of interest in pools of

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loans made pursuant to commodity loan programs of the Commodity Credit Corporation, with specific reference to whether your Bank's agreement with CCC of April 18, 1949, as amended May 6, 1949, will be effective with respect to any such certificates of interest assigned to you by your member banks or reassigned to member banks by your Bank, notwithstanding any provisions contained in the Corporation's October 14, 1953 announcement regarding such certificates or any similar announcements.

As you know, the agreement with Commodity Credit Corporation executed in 1949 by your Bank and by certain other Federal Reserve Banks was intended to afford the Reserve Banks protection in discounting producers' notes and in accepting as collateral for advances certificates of interest in pools of notes under the CCC cotton loan program. However, the language of that agreement is not restricted to the cotton loan program and its provisions are applicable to any cases in which the signatory Federal Reserve Banks may accept as collateral for advances to member banks certificates of interest in the pools of loans recently established in accordance with CCC announcements of October 14 and December 7, 1953, with respect to both cotton and other agricultural commodities. For example, the provision of the 1949 agreement with respect to the crediting of payments made by CCC to a Federal Reserve Bank on account of certificates of interest held by such Reserve Bank would be applicable to payments made on outstanding certificates in the recently established pools where a signatory Federal Reserve Bank is the holder of such certificates.

With respect to the effectiveness of assignments of certificates of interest during the first 10 days of any calendar month, it appears that there is no inconsistency between the terms and conditions of the 1949 agreement executed by your Bank and the terms and conditions under which certificates are issued in connection with the current pools. It will be recalled that the 1949 agreement, as amended, provides that payments made on certificates during the first 10 days of any calendar month will be made without regard to any assignment during that period, but that any such assignment in all other respects will become effective when advice of the assignment is received. Under the terms and conditions applicable to certificates of interest in the current pools, there is no provision which makes an

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assignment ineffective during the first 10 days of any calendar month; but, if CCC should announce on the first business day of a particular month its intention to purchase the whole or any part of outstanding certificates during that month, assignments made during the first 10 calendar days of such month will not be recorded prior to the expiration of such 10-day period and payments made by CCC during that period will be made to the certificate holders of record as of the last day of the preceding month.

Consequently, as under the amended 1949 agreement between your Bank and CCC, if a member bank should assign a certificate to your Bank within the first 10 days of any month in which CCC may have announced a distribution on outstanding certificates, such an assignment will be valid for all purposes except that payments thereon will be made to the holder of record as of the last day of the preceding month, presumably the member bank.

It seems doubtful that there will be any great volume of such certificates assigned to the Federal Reserve Banks by member banks as collateral for advances. Moreover, for your confidential information, it is understood that, on the basis of the present situation, it is not anticipated that any distribution on outstanding certificates will be announced by CCC before May 1, 1954. In the event, however, that such a distribution should be announced and that any certificates of interest should be offered as collateral by member banks during the designated 10-day period, it has been suggested that special arrangements might be made at that time for dealing with such a situation. For example, it would probably be possible, with the consent of the member bank, for arrangements to be made under which the payment would be made directly to the Federal Reserve Bank to be held by it until the maturity of the advance or applied to the reduction of the advance, depending upon the arrangement made with the member bank. There is also, of course, the alternative possibility that the Reserve Bank in such a case might limit the amount of its advance to the value of the certificate as reduced by the amount of such payment.

This matter has been discussed with officials of the CCC and they have expressed their concurrence with the views stated in this letter.

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

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Telegrams to the Presidents of all Federal Reserve Banks authorizing them to pay the regular semiannual dividend as of December 31, 1953. The telegram to the Federal Reserve Bank of Boston noted that deductions from current net earnings would include a charge-off of the \$30,000 remainder of an original balance of \$126,525 for architects' fees paid in 1944 and 1945 relating to plans and specifications subsequently abandoned.

Approved unanimously.

Memorandum dated December 18, 1953, from Mr. Sloan, Director, Division of Examinations, reading as follows:

If it meets with the approval of the Board it is planned to hold the usual annual conference of representatives of the bank examining departments of the Federal Reserve Banks at the Board's offices on February 11, 12 and 13, 1954. These dates fall on Thursday, Friday and Saturday following the Mid-Winter Trust Conference in New York which is scheduled for the first three days of the week. The conference is attended by Vice Presidents in charge of examinations and the chief examiners for the several Reserve Banks, some of whom will also attend the Trust Conference.

It is planned to defer the System conference of trust examiners, which has been held in New York for the past several years just prior to the Mid-Winter Trust Conference, with the possibility that it may be held some time later in the year at some mid-continent point. When the need for the conference has been determined and a site and time have been selected the Board's approval will be sought.

Approved unanimously.


Secretary