Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 24, 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. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, Assistant General Counsel

The following requests for travel authorization were presented:

Name and title	Duration of travel
R. F. Leonard, Director, Division of Bank Operations	January 24-27, February 1-5, 1954
George B. Vest, General Counsel	January 24-28, February 1-6, 1954

To travel to Philadelphia, Pennsylvania, Atlanta, Georgia, and Richmond, Virginia, to attend, as associate members of a special subcommittee of the Presidents' Conference, a joint meeting in Philadelphia with a special committee of the American Bankers Association to consider the direct return of unpaid items to the first endorsing bank, and, as associate members of another special subcommittee of the Presidents' Conference, to study the pilot operations instituted at the Federal Reserve Banks of Philadelphia, Richmond and Atlanta in connection with the handling of deposits by United States postmasters pursuant to a recent proposal by the Post Office Department.

Approved unanimously.

There was presented a letter dated December 22, 1953, from Mr. Alonzo G. Decker, Jr., Vice President of The Black and Decker Manufacturing Company, Towson, Maryland, submitting his resignation as a director of the Baltimore Branch, Federal Reserve Bank of Richmond, because of his appointment as a Class C director of the Federal Reserve Bank of Richmond, effective January 1, 1954.

Mr. Decker's resignation as a director of the Baltimore Branch was accepted, effective December 31, 1953.

There had been circulated among the members of the Board prior to this meeting a memorandum from Mr. Leonard dated December 22, 1953, discussing an attached letter dated December 11, 1953, in which Mr. Johns, President of the Federal Reserve Bank of St. Louis, advised that the Bank's board of directors at a meeting on the previous day had voted to authorize, subject to the approval of the Board of Governors, acquisition of additional land adjacent to the present building of the Louisville branch at a cost of $409,500, plus such ancillary and incidental expenses as might be reasonably necessary to obtain good title, including attorney's fees. The letter from President Johns advised that options to acquire the additional land must be exercised by January 15, 1954.

There was a general discussion of the circumstances surrounding the selection of a site for a new building for the Louisville Branch, including consideration given to various aspects of the matter by the Board previously, during which it was noted that the current recommendation

was by the head office board of directors, the directors of the Louisville Branch having referred the matter to the head office without recommendation. It was also noted that failure to secure binding options to acquire the property in question had resulted in an asking price of $409,500, as compared with $339,000, and that this price appeared to compare unfavorably with prices paid by Federal Reserve Banks recently for land in other branch cities.

During the discussion, Governor Robertson suggested that in the circumstances the Board decline to approve the proposition submitted by the Federal Reserve Bank of St. Louis. It was his further thought that the Board should not approve any proposal until such time as the Louisville Branch and the head office directors developed a satisfactory solution to the problem.

Agreement was expressed with the views stated by Governor Robertson and, accordingly, unanimous approval was given to a letter to President Johns in the following form:

The Board of Governors has considered the program, as outlined in your letter of December 11, 1953, for the purchase of property adjoining the Louisville Branch and the erection of a new building on the enlarged site.

In view of all of the circumstances, particularly those pertaining to the unexpected increase in the price for the properties, the Board does not approve the proposed purchase.

Mr. Leonard then withdrew from the meeting.

At the request of the Board, Mr. Hackley commented on the circumstances surrounding a request by Fidelity Union Trust Company, Newark, New Jersey, a State member bank, for a determination by the Board of Governors that neither that bank nor the Essex Investment Company, which is controlled by the bank, would be a holding company affiliate in the event of the acquisition by the investment company of the majority of the shares of stock of The West Hudson National Bank, Harrison, New Jersey, as part of a plan for the eventual absorption of the national bank by Fidelity Union Trust Company. The background and legal aspects of the matter were set forth in a memorandum dated December 23, 1953, from Mr. Hackley and a letter dated December 11, 1953, from Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, copies of which had been sent to the members of the Board prior to this meeting.

Following Mr. Hackley's statement, Governor Robertson said that he had gone into the matter carefully and that he could not recommend that the Board make the requested determination, even though the end result of the transaction might be desirable from a banking standpoint; such action by the Board might be regarded, he felt, as amounting to approval of the purchase of stock of the national bank by the Essex Investment Company, which, in the circumstances of the case, would be inconsistent with the provisions of section 5136 of the Revised Statutes of the United States and section 9 of the Federal Reserve Act

or would at least be subject to serious legal question. With regard to the suggestion made orally by representatives of the member bank when they met with members of the Board's staff on December 22 that the Board disregard the bank's request in the thought that it might not be necessary for the bank to ask the Board to take any affirmative action, either by way of making a section 301 determination or by way of granting a permit for the voting of stock in the national bank, Governor Robertson said that inasmuch as the matter had been presented to the Board, it was his opinion that the Board should act upon it. In the circumstances, it was his recommendation that the Board deny the requested determination and advise the member bank that the purchase of stock of The West Hudson National Bank by Essex Investment Company would be inconsistent with statutory provisions.

At this point Mr. Sloan, Director of the Division of Examinations, entered the room and reported that a representative of the Comptroller of the Currency with whom he had just been discussing the matter by telephone had stated that it appeared possible that arrangements might be made for The West Hudson National Bank to be taken over by The First National Bank and Trust Company of Kearny, New Jersey. Since Kearny and Harrison are located in the same county, provisions of New Jersey State law which complicated the proposal of Fidelity Union Trust Company would not be involved.

Following a further discussion of the matter, unanimous approval was given to a letter to Mr. Wiltse reading as follows:

This refers to your letter of December 11, 1953 with respect to the holding company affiliate status of Fidelity Union Trust Company, Newark, New Jersey, and Essex Investment Company in the event of the acquisition by the latter of controlling interest in the shares of stock of The West Hudson National Bank, Harrison, New Jersey.

It is understood that Essex Investment Company is a subsidiary of Fidelity Union Trust Company by reason of the fact that the Trust Company owns over 95 per cent of the outstanding shares of stock of the Investment Company. It is also understood that Essex Investment Company has agreed, subject to certain conditions, to purchase not more than 174,000 shares of new common stock of The West Hudson National Bank, which shares might be held by the Company for an indefinite period.

As you know, section 9 of the Federal Reserve Act provides that State member banks shall be subject to the same limitations and conditions with respect to the purchase of stocks as are applicable in the case of national banks under section 5136 of the Revised Statutes, and section 5136 prohibits the purchase of stock of any corporation by a national bank with certain limited exceptions which are not applicable in this case. Since a national bank could not purchase the stock of The West Hudson National Bank, the Fidelity Union Trust Company is also prohibited from doing so.

It is the Board's opinion that the purchase of stock of The West Hudson National Bank by Essex Investment Company, a subsidiary of the Fidelity Union Trust Company, would in the circumstances of this case be inconsistent with the provisions of the statute. Accordingly, while conscious of the various considerations that are favorable to the proposed acquisition from a practical point of view, the Board is not in a position to make the determinations requested.

Messrs. Vest, Sloan, and Hackley then withdrew from the meeting.

There were presented telegrams to the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, St. Louis, and Minneapolis

stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on December 21, and by the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, and Minneapolis on December 24, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Messrs. Allen, Director, Division of Personnel Administration, and Johnson, Controller, entered the room.

Prior to this meeting there had been circulated among the members of the Board a draft of a letter to Mr. Karl T. Compton, Chairman of the Committee on Selection of the Rockefeller Public Service Awards, Princeton University, Princeton, New Jersey, reading as follows:

> The Board of Governors is pleased to learn from your letter of December 8, 1953, that Mr. Daniel H. Brill, a member of the Board's staff, is being considered for a Rockefeller Public Service Award.
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> In forwarding Mr. Brill's project, it was recognized that it was one from which both Mr. Brill and the Federal Reserve System would primarily benefit. However, it appeared to us that the nature of the awards program is such that the benefits invariably redound primarily to the individual and his agency. Inspection of those winning awards in the past seems to substantiate this view.
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> The project outlined by Mr. Brill involves study and research of a broader nature than the Board would be justified undertaking as a part of its research activities. However, the Board would be agreeable to retaining Mr. Brill on a salary basis for the duration of his proposed project if an award is recommended for him. In this way, the Board would be sharing in the cost of the project and at the same time Mr. Brill would receive the personal recognition which accompanies the award.

Discussion of the matter included reference to the origin, development, and current status of the moneyflows project, the benefits which it was believed that Mr. Brill and the Federal Reserve System would obtain from his making the studies in foreign countries contemplated under the program which he would follow if given a Rockefeller Public Service Award, and the provision which would be made for carrying on the moneyflows project at the Board in Mr. Brill's absence.

At the conclusion of the discussion, the letter to Mr. Compton was approved unanimously in the form set forth above.

Consideration also was given to the recommendation contained in a memorandum from Mr. Young dated September 28, 1953, that Mr. Brill's position as Economist be reclassified from Group X to Group Y, with an increase in basic annual salary from $9,800 to $10,800, and to the questions raised in this connection in a memorandum from Mr. Johnson dated October 7, 1953.

At the request of the Board, Mr. Young discussed the duties performed by Mr. Brill as economist in charge of the moneyflows project, while Mr. Johnson called attention to the existing Board practice restricting allocation of Group Y positions to the heads of certain sections in the Board's organization. Mr. Allen stated that the Division of Personnel Administration concurred in the proposed reclassification of

Mr. Brill's position in view of the special considerations involved in this case.

Following a discussion based on the comments of Messrs. Young and Johnson, all of the members of the staff except Mr. Carpenter withdrew from the meeting.

The problem of the reclassification of Mr. Brill was considered further on the basis of the various alternatives available to the Board, including (a) continuing his present Group X classification and increasing his salary to the maximum of that group, (b) reclassifying his position to Group Y, and (c) creating a separate section for the moneyflows project in the Division of Research and Statistics with Mr. Brill as chief of the section at the Group Y level.

> At the conclusion of the discussion, it was agreed unanimously to approve the reclassification of Mr. Brill's present position to Group Y, with an increase in Mr. Brill's basic annual salary from $9,800 to $10,800, effective January 3, 1954, with the understanding that Chairman Martin would discuss the matter with Messrs. Young and Johnson to assure that they both understood the basis upon which the Board's decision was made.

The meeting then adjourned. During the day the following additional action was 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 23, 1953, were approved unanimously.

Secretary