

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 6, 1954. 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. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel

There was presented a request from Mr. Benner, Assistant Director, Division of Examinations, for authority to travel to Kansas City, Missouri, during the period January 10-13, 1954, to survey the Bank Examination Department of the Federal Reserve Bank of Kansas City and meet with the Bank's examining staff.

Approved unanimously.

Reference was made to the action taken by the Board at yesterday's meeting pursuant to which Mr. Woodward, Chairman of the Federal Reserve Bank of Richmond, was requested to ascertain whether Mr. Halbert M. Jones would accept appointment, if tendered, as a director of the Charlotte Branch, Federal Reserve Bank of Richmond. It was reported that subsequently it had been determined that Mr. Jones' place of residence, Laurinburg, North Carolina, is located in the territory served by

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the head office of the Richmond Bank, rather than in the Charlotte Branch territory.

Following discussion of other persons who had been suggested for appointment to the board of directors of the Charlotte Branch and concerning whom data had been sent to the members of the Board with a memorandum from the Division of Personnel Administration dated December 23, 1953, it was voted unanimously to request Chairman Woodward to ascertain and advise the Board whether Mr. Charles A. Gibson, President and Treasurer of the F. W. Poe Manufacturing Company, Greenville, South Carolina, would accept appointment, if tendered, as a director of the Charlotte Branch for the unexpired portion of the term ending December 31, 1956.

At this point Mr. Johns, President of the Federal Reserve Bank of St. Louis, Mr. Noel Rush, President of the Lincoln Bank and Trust Company, Louisville, Kentucky, and a director of the Louisville Branch, and Mr. J. McFerran Barr, President of the First National Bank of Louisville, Louisville, Kentucky, entered the room.

Messrs. Rush and Barr were present to explain why they believed the Board of Governors should approve the purchase of certain properties adjacent to the present Louisville Branch building and the construction of a new branch building on the site of the present building and the adjacent properties. Such a recommendation had been made by the board

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of directors of the Federal Reserve Bank of St. Louis in December 1953, but the proposal was rejected by the Board of Governors in its letter to President Johns on December 29 which was sent following discussion at the meeting on December 24.

Messrs. Rush and Barr presented letters from the Louisville Trust Company and the Citizens Fidelity Bank and Trust Company indicating that those banks concurred in their views on the matter and they stated that at least one of the other two member banks in Louisville likewise concurred.

The principal reasons given by the Louisville bankers as to why they considered it desirable to erect a new Branch building at 5th and Market Streets were as follows:

(1) Practically all of the important financial institutions in Louisville are located in the immediate vicinity of 5th and Market Streets, which is regarded as a well-established area. (Mr. Rush pointed out that President Johns had felt that the Branch should be located in another area and had reluctantly agreed to continuation of the Branch at the present site.)

(2) From the standpoint of day-to-day operations involving contacts between the Louisville member banks and the Louisville Branch, it would be more economical and efficient to have the Branch remain at its present location. Location of the Branch at other possible sites several blocks away would create substantial operating difficulties, increase risks in transporting currency and coin, delay clearing operations of the banks and the Branch, and result in increased costs to the banks.

(3) Several of the member banks and other financial institutions have spent sizeable amounts recently in renovating and enlarging their premises. This indication of their intention to remain at their present locations would tend to show that the area would not deteriorate substantially, if at all,

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within the foreseeable future. On the other hand, should the Louisville Branch move elsewhere, that might impair the property values of the member banks.

(4) Location of the Louisville Branch in the same area as the member banks makes it easy for out-of-town member bankers to visit both the Branch and their correspondent banks when they come to Louisville.

(5) Options on the properties in question were to expire on January 15, 1954, and it was doubtful whether a renewal of the options would be possible.

(6) Decision to locate the Branch at another site would result in further delays in providing the Branch with needed space.

Mr. Rush also expressed the belief that despite certain limitations which would be posed by the amount of land available, a building adequate for branch operations could be erected at 5th and Market Streets. He added that if more space should be needed, it would be possible to add more floors to the building.

In response to an inquiry by Governor Szymczak as to why the Louisville Branch directors had not joined in the recommendation made by the head office directors in December 1953, Mr. Rush offered the explanation that the branch directors previously had recommended the construction of a new building at the 5th and Market Streets site and that in view of the fact that the ultimate decision rested with the head office directors, the branch directors chose not to repeat the recommendation, particularly with the increased asking price for the adjoining properties,

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since they did not wish to seem to be in a position of dictating to the head office directors what decision should be reached.

There ensued a discussion of the circumstances surrounding the loss of options held previously on the adjoining properties, which resulted in an increase in the asking price from \$339,000 to \$409,500. Messrs. Rush and Barr explained that a building and loan association having its quarters in a building situated on one of the parcels of land in question had indicated willingness to move to another location and that an option on the property to which the association agreed to move had been secured, but that immediately upon its expiration a Louisville member bank secured an option on the property despite an understanding with the owner that the option would be extended. In the circumstances, the savings and loan association became more reluctant to leave its present quarters. Messrs. Rush and Barr said that the member banks in Louisville had offered to reimburse the Reserve Bank the amount of the difference which would have to be paid for the properties under the new options (approximately \$70,000) but that the offer properly was refused by the Reserve Bank.

Following additional discussion Chairman Martin stated that the Board would consider the matter further in the light of the views presented.

Messrs. Johns, Rush, and Barr then withdrew from the meeting.

There was presented a memorandum dated January 4, 1954, from the Division of Personnel Administration recommending that members of the

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girls' basketball team, which is sponsored by the Reserve Board Club, be excused from duty one hour early on January 14, 1954, without charge to annual leave, in order that the team might accept an invitation from an organization in Hagerstown, Maryland, to play a game there that evening. The memorandum also pointed out that in the event of injury to any member of the team, it might be construed that the Board was liable, but that such liability was covered under a policy that the Board carries with the Liberty Mutual Insurance Company.

The statement in the memorandum regarding possible liability of the Board was noted and the recommendation contained in the memorandum was approved unanimously.

Further consideration then was given to the Louisville Branch building situation, the statements made by Messrs. Rush and Barr earlier in this meeting being reviewed in the light of factors pertinent to the matters which were discussed by the Board at the meeting on December 24, 1953, and on previous occasions.

At the conclusion of the discussion, it was the view of all of the members of the Board that no facts had been presented by Messrs. Rush and Barr which would justify the Board in modifying the position stated in its letter to President Johns dated December 29, 1953.

Secretary's Note: Subsequent to the meeting, Chairman Martin advised Messrs. Johns, Rush, and Barr orally of the Board's position.

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Governor Mills stated that at a meeting of the directors of the Federal Reserve Bank of Kansas City which he attended recently there was some discussion of the provision contained in section 14(d) of the Federal Reserve Act requiring that each Federal Reserve Bank establish rates of discount at least every 14 days. He said it appeared that the board of directors of the Kansas City Bank does not always meet on a date convenient for setting the rates of discount and that the question was raised whether the Bank should submit to the Board of Governors a recommendation that remedial legislation be sought. Governor Mills said he mentioned the matter at this time merely because of the fact that the Kansas City board might decide to make a recommendation to the Board of Governors.

During a discussion of the matter, Mr. Vest recalled that following the passage of the Banking Act of 1935 question was raised whether a Reserve Bank's executive committee could act to establish the rates of discount in compliance with the law and that the question was resolved by having the executive committee act in accordance with instructions or authority given by the full board of directors. He said that the problem had become one of lesser importance in recent years and that although a change in the law to eliminate the 14-day requirement would be desirable, the matter was not urgent.

No conclusion was reached on the question whether, at an appropriate time, legislation should be requested.

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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 January 5, 1954, were approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

Pursuant to the recommendation contained in your letter of December 30, 1953, the Board of Governors approves the appointment of Gurdon G. Potter as an assistant examiner for the Federal Reserve Bank of Philadelphia.

It is noted that Mr. Potter is indebted to a member bank but that he plans to transfer this indebtedness to a nonmember institution.

Approved unanimously.

Letter to the Board of Directors, The Dollar Savings and Trust Company, Youngstown, 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 southeast corner of McGuffey Road and Garland Avenue, Youngstown, Ohio, by The Dollar Savings and Trust Company, Youngstown, Ohio, provided the branch is established by June 14, 1954.

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

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

This is in further reference to your letter of December 4, 1953 with which you enclosed a copy of a letter of November 27 from Mr. Walter C. Haeussler of the brokerage firm Paul Brown and Company, St. Louis, Missouri, concerning section 32 of the Banking Act of 1933, as amended. One of the partners of the firm, Mr. Albert M. Keller, also is a director of the Mercantile Trust Company, St. Louis, Missouri, a member bank.

From the above correspondence it appears that the present business of Paul Brown and Company is that of agents executing orders for the purchase and sale of securities on behalf of others in the open market. Assuming that to be true, section 32 clearly is inapplicable as indicated by footnote 1 to the Board's Regulation R.

However, Mr. Haeussler stated that, in executing orders of certain prospective customers for the purchase of securities, the firm "will have to act as principals", rather than as agents. These situations are expected to arise because certain prospective customers, who are banks, will request that they be billed for the securities ordered by them at a net price which will include (but not disclose) a profit to the firm in an amount roughly equivalent to the usual commission on transactions handled by the firm as agents. In this connection, Mr. Haeussler stated in his letter that "Inasmuch as we do not own any securities that are for sale to the public this means that in a situation described above we would go out in the open market and buy the securities for which the bank has given us a definite order". Mr. Haeussler stated further that "This would not in any way change our policy of no syndicate nor participation commitments, and such instances as described above - where we would act as principals - would be a very small part of our over-all business. You may rest assured that with respect to the prospective service described above, no inventory of securities will be maintained by this firm, and that neither this firm nor any of its employees will sponsor any particular security and that no transaction will be executed until a firm order is in our hands".

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Although the views expressed in your letter have been carefully considered, it does not appear to the Board - on the basis of the information presented - that the prospective transactions in question should be regarded as materially different from the business described in footnote 1 to the Board's Regulation R or as constituting "the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation of" securities under section 32. As pointed out by the Supreme Court of the United States in Board of Governors of the Federal Reserve System v. Agnew, 329 U.S. 441 (1947), section 32 "is directed to the probability or likelihood, based on the experience of the 1920's, that a bank director interested in the underwriting business may use his influence in the bank to involve it or its customers in securities which the underwriting house has in its portfolio or has committed itself to take".

However, it has been noted that no explanation has been given why the banks, with whom it is expected by Mr. Haeussler that his firm will do business, should wish to be billed at a net price for securities. The Board feels that the reason for this should be determined and it requests that your bank ascertain as fully as possible why it is proposed that the transactions be handled on the basis indicated, either by obtaining the information from Paul Brown and Company or by obtaining it from the banks themselves which wish to be billed at a net price. It will be appreciated if you will transmit such information as you are able to obtain on this subject to the Board for its information and for possible further consideration of the views expressed above in the event that the information should be of such a character as to have any bearing on that question.

In any event, the Board agrees that situations of the kind in question deserve close scrutiny. Therefore, it would not seem inappropriate if you should indicate to Paul Brown and Company the desirability of your being informed of any changes that might occur in the situation that would suggest the need at some future time for re-considering the question of the possible application of section 32.

Approved unanimously.

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

Reference is made to your letter of December 17, 1953, submitting a request of the Farmers and Merchants Bank of Lodi, California, for a reconsideration of its application to establish a branch in McHenry Village adjacent to the city of Modesto.

The Board of Governors has given careful consideration to all of the available information on this proposal and concurs in your opinion that the application should not be approved. This conclusion is based upon the same reasons expressed in the Board's letter of October 2, 1953, and it is suggested that the bank be advised accordingly.

Approved unanimously.


Secretary