Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 15, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics

By letter dated January 14, 1954, addressed to Chairman Martin, Mr. Neil H. Jacoby, member of the Council of Economic Advisers, transmitted a copy of the first draft of the Economic Report of the President. The letter stated that because of the schedule, it would be necessary to have any comments on the draft by this afternoon.

At the request of the Chairman, Messrs. Riefler and Young discussed portions of the draft which were of particular interest to the Federal Reserve System and suggested comments which might be sent to the Council of Economic Advisers. Following a discussion, during which several suggestions were made by members of the Board as to ways in which the proposed comments on the Economic Report might be modified, Chairman Martin

suggested that the staff revise the comments in the light of the discussion, that the Board meet again this afternoon to consider the matter, that a letter transmitting the comments be sent to the Council of Economic Advisers over his signature this afternoon, and that each member of the Board thereafter read the complete draft of the Economic Report with a view to transmitting additional comments if desired.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on January 13 and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City and Dallas on January 14, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

Thereafter, the Chairman informed the Secretary that during the executive session the Board approved an absence on annual leave for Mr. Vest, General Counsel, from approximately May 10 to approximately June 25, 1954, in order to enable him to make a trip to Europe.

The meeting then recessed and reconvened at 3:00 p.m. with all of the members of the Board except Governor Szymczak present. Messrs.

Carpenter, Sherman, Kenyon, Thurston, Riefler, Thomas, and Young of the staff also were present.

Pursuant to the understanding at the morning session, there was presented a revised draft of comments for transmittal to the Council of Economic Advisers concerning the first draft of the Economic Report of the President.

At the conclusion of a further discussion of the matter unanimous approval was given to a letter for the signature of the Chairman to Mr. Jacoby in the following form:

Thank you for an opportunity to review your first draft of the Economic Report of the President. It is a splendid presentation of the economic situation and of the problems which must be dealt with to sustain growth of the economy.

We have a few points of substance to which you may wish to give further consideration. These are as follows:

Chapter 3, page 7. Do you want to make the point quite so strongly and enthusiastically about the permissive further liberalization of FHA mortgages? Isn't it a fact that terms in the residential mortgage field are already pretty lax?

Chapter 4, page 7. We question whether it is correct to characterize the housing market as still tight.

Chapter 7, page 12. On the proposal for a private secondary mortgage financing institution, it is stated that the Treasury should be authorized to provide it with initial financial support. Is this sound in principle? Is there not a danger that it might retrace the steps of the Federal National Mortgage Association?

Chapter 7, pp. 13-14 We suggest the paragraphs on Bank Examination Procedures be deleted because of the indication that those procedures have been drastically revised as a result of the 1938 agreement. That is hardly accurate. In most respects that agreement simply formalized previously existing attitudes and practices. In other respects it has

been reversed by subsequent actions. The difference between the environment of the early 1930's and now, in so far as bank closings are concerned, is basically that improved facilities are now available for providing bank liquidity, e.g., the Federal Reserve System's greater power and willingness to make credit available. We doubt the impact of bank examination procedures on bank lending policies is significantly different today from yesterday, except to the extent that the procedures have been refined in the light of the experience of the last twenty years. We would suggest substituting a paragraph or two on the improved facilities now available for preventing a lack of bank liquidity from being a cause of bank closings. Moreover, we question the desirability of Presidential comment on this matter.
The Comptroller of the Currency concurs in this general suggestion.

Chapter 7, page 16. Has there been sufficient consideration of the proposal that shares in credit unions be guaranteed by the Federal Government? We are frankly concerned about its mention in the report. These shares, we believe, yield a much higher return than the Treasury's E Bonds. If they are Federally guaranteed they would have the same status as a riskless asset available to the public and might have serious repercussions on the money market. The management of credit unions, as we understand it, is not professional. Would it be sound to make available to them for lending the huge funds that might accrue to them if they could offer the public a very high yield, riskless obligation? The credit unions specialize in consumer credit. Do you want to give this sort of strong impetus to consumer lending? Finally, are credit unions sufficiently supervised to put this large growth element in their hands? Might you not stimulate a development such as occurred in the building and loan field in the Twenties, where individuals would find it highly remunerative to specialize in organizing credit unions, acting as secretary or adviser on

a fee basis to each one and establishing many unneeded laxly administered institutions that might later collapse and endanger the stability of the economy?

Chapter 7, page 19. It is very doubtful in our view whether the method of computation of legal reserve requirements has any contribution to make to the stability and growth potential of the economy. We would suggest that it not be mentioned.

If you wish to make a recommendation for a study of instalment credit regulation, we would suggest that you drop the word "standby".

Chapter 9, page 5. We question whether loans to States whose unemployment funds are nearly exhausted should be made on a non-interest bearing basis. This does not seem to us to be fair to other States if it is their funds that are being loaned.

Chapter 10, page 8. We would suggest dropping the reference to federal guarantees of State and local government securities issued for the purpose of financing public works, particularly in depressions. We feel that it is undesirable in principle to guarantee tax exempt obligations of another sovereignty. Also, a political problem of log-rolling is involved similar to that which is characteristic of rivers and harbors appropriations.

Chapter 12, Pages 4 and 6. In chapter 12, on both pages 4 and 6, the language seemed to identify the Federal Reserve with the Administration. As this is against the Administration's announced policy with respect to the independent position of the Federal Reserve in the governmental structure, we would suggest that you substitute the word "government" for the word "Administration" in line 17, page 4, and line 13, page 6. We would suggest rephrasing the sentence beginning on line 14, page 6, to read: "It will first put

its heaviest reliance on the use of monetary and credit policy as well as on further modifications of the tax structure."

In our reading, we made a few editorial suggestions, a listing of which is enclosed.

Governor Evans stated that he had received a telephone call today from Mr. Johns, President of the Federal Reserve Bank of St. Louis, who made substantially the following report on the Louisville Branch building situation:

The directors of the St. Louis Reserve Bank met yesterday and there was placed before them a letter dated January 13, 1954, from Mr. Noel Rush, President of Lincoln Bank and Trust Company, of Louisville, and Mr. J. McFerran Barr, President of the First National Bank of Louisville, proposing the purchase of properties adjoining the present Louisville Branch building at a total cost of approximately $355,000 (rather than $409,500) under options expiring on February 1, 1954. It appeared that following their meeting with the Board of Governors on January 6, 1954, Messrs. Rush and Barr returned to Louisville, met with the owners of the properties involved, and arranged the current proposal.

Their letter also indicated that representatives of the six member banks in Louisville would like to meet with the Board of Governors to discuss the matter.

After considering the new proposition, the head office directors rescinded the actions which they had taken theretofore proposing the purchase of land adjacent to the present Branch building, and this information was transmitted to Mr. Rush by telephone.

Governor Evans said he told President Johns that although the Board of Governors probably would grant a request for another hearing, he felt confident the Board would say at such a hearing that it could not discuss a Louisville Branch building program until a recommendation was received from the head office board of directors. Governor Evans also said that President Johns was sending a letter to the Board of Governors confirming the information which he had given over the telephone.

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 14, 1954, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointment, effective upon the date of assuming duties

Name and title	Division	Type of appointment	Basic annual salary
Catherine H. McGee, File Clerk	Office of the Secretary	Temporary (six months)	$2,950

Salary increases, effective January 17, 1954

Name and title	Basic annual salary	
Research and Statistics		
Alice R. Williams, Clerk	$3,190	$3,270
International Finance		
Henry K. Heuser, Chief, Central and Eastern European Section	$10,000	$10,200
Examinations		
W. R. Mernah, Assistant Federal Reserve Examiner	$3,795	$3,920
Administrative Services		
Elizabeth L. Carmichael, Chief, Publications Section	$6,000	$6,125
Mary E. Dorsey, Printing Clerk	$4,705	$4,830

Salary increases, effective January 17, 1954 (continued)

Name and title	Division	Basic annual salary From	To
	Administrative Services		
J. Robert Surguy, Printing Clerk		$4,420	$4,545
Henry Tate, Messenger		$2,872	$2,952

Approved unanimously.

Letter to Mr. Quackenbush, Manager, Bank Examinations Department, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of January 7, 1954, transmitting the request of The North Jersey Trust Company, Ridgewood, New Jersey, for an extension of time within which it may establish a branch at the southwest corner of Godwin and Habben Avenues, Midland Park, New Jersey.

At the time of approval of the establishment of the branch on August 3, 1953, it was reported that the board of directors of the trust company had agreed to erect a building for the branch on a plot of ground purchased a few months previously. It is now stated by the trust company that it is hopeful of being able to start construction of the building sometime next month.

It will be appreciated if you will obtain from the trust company the reasons for the delay in constructing the branch building; also more definite information as to the probable date of its completion. In the light of this information, the Board will be able to determine whether an extension of time is justified, or whether the present authorization should be permitted to expire and a new investigation made at such time as the approximate date of establishment of the branch is available.

Approved unanimously.

Letter to Board of Directors, The Cleveland Trust Company, Cleveland, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the

establishment and operation of a branch at the southwest corner of Northfield and Libby Roads, Maple Heights, Cuyahoga County, Ohio, by The Cleveland Trust Company, Cleveland, Ohio, provided the branch is established within one year from the date of this letter.

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

Letter to Mr. Fulton, President, Federal Reserve Bank of Cleveland, reading as follows:

This is in further reference to Mr. Donald S. Thompson's letter of December 29, 1953, and its enclosures, concerning the application of section 32 of the Banking Act of 1933, as amended, to the proposed service of Mr. Milton G. Hulme as a director of the Peoples First National Bank & Trust Company, Pittsburgh, Pennsylvania. Mr. Hulme is director and president of Glover & MacGregor, Inc., and of the latter's affiliate, Hulme, Applegate & Humphrey, Inc., both of Pittsburgh. This matter, which was also the subject of your letter of January 12, 1954, and its enclosure, raised the question whether either Glover & MacGregor, Inc., or Hulme, Applegate & Humphrey, Inc., are "primarily engaged" in any business of the kind covered under section 32.

The combined figures submitted in this connection for both Glover & MacGregor, Inc., and Hulme, Applegate & Humphrey, Inc., show that the volume of underwriting and distributing engaged in by these organizations ranged from $230,000 to $600,000 over the years 1950 through 1953. While such volume was $1,000,000 in 1949, it is understood that that was an irregular year apparently representing an unusual occurrence. It appears also that the percentage ratio of the dollar volume of underwriting and distributing engaged in by the two organizations to the dollar volume of their total business ranged from 4 per cent to 9 per cent for the period 1950 through 1953. This ratio for the irregular year 1949 was 16 per cent. The information submitted shows, among other things, that the gross income of the two organizations from underwriting and distributing for the years 1950 through 1953 ranged from $2,000 to $16,000, representing a percentage ratio of such income to total gross income of 1-1/2 per cent to 7-1/2 per cent. The figures for the irregular year 1949 showed gross income from underwriting and distributing of $11,000, representing a percentage ratio to total gross income of 7 per cent.

In addition, it is understood that neither Glover & MacGregor, Inc., nor Hulme, Applegate & Humphrey, Inc., has a separate underwriting or distributing department and that neither emphasizes underwriting or distributing. It is understood further that the kinds of business performed by the two organizations are substantially the same, and it is assumed that a separate analysis of each organization would not reveal amounts or percentages differing in any material respect from the combined amounts and percentages for the two organizations. In this connection it is noted that the affiliate, Hulme, Applegate & Humphrey, Inc., was only recently formed, that the primary purpose of forming such affiliate was to facilitate the entry of certain additional individuals into association with Glover & MacGregor, Inc., and that it would appear impracticable at this time to prepare a separate analysis for such affiliate. It is understood also that the information submitted in this connection with respect to the "underwriting and distributing" in fact reveals all business covered under section 32.

In the circumstances as related in this case and on the basis of the Board's understanding thereof as indicated herein, the Board agrees with the views expressed by Counsel for your Bank that the service by Mr. Hulme as a director of the Peoples First National Bank & Trust Company would not at this time violate section 32. The Board also agrees with your Counsel's suggestion that the situation be reexamined after one year in the light of the circumstances as they may exist at that time.

Approved unanimously.

Memorandum dated January 13, 1954, from Mr. Sloan, Director, Division of Examinations, recommending that the Office of the Controller be authorized to make available for training purposes during each session of the School for Assistant Examiners of the Inter-Agency Bank Examination School in 1954 sums not to exceed $10,000 in currency (paper and metallic), with the understanding that the currency, while in use, would be under the responsibility of Glenn M. Goodman, Assistant Director, Division of

Examinations, and that when not in use for the purposes specified, and in any event at the end of each day, it would be returned to the Fiscal Section, Office of the Controller. The memorandum also stated that the currency, when in use, would be in the custody of Mr. Goodman or Mr. Bartz, Federal Reserve Examiner, both of whom are bonded.

Approved unanimously.

S R Carpenter
Secretary