

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 18, 1954. The Board met in the Board Room at 10:00 a.m.

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

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

There was a general review and discussion of developments affecting System credit policy, with emphasis on the recent decline in bank loans.

At the conclusion of this discussion, Messrs. Sloan, Director, Division of Examinations, and Hackley, Assistant General Counsel, entered the room.

Governor Szymczak summarized the first meeting of the policy committee on fiscal agency operations which was held on January 15 in the office of Mr. Burgess, Deputy to the Secretary of the Treasury, with the three members of the policy committee present and Messrs. Edward F. Bartelt and David M. Kennedy, of the Treasury Department, in attendance during part of the meeting. Among the topics discussed were the extent to which the Federal Reserve Banks should undertake new fiscal agency operations, the

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time which they should be allowed to prepare for such operations, and the matter of reimbursement. Governor Szymczak said it was mentioned that although the assuming of additional fiscal agency operations by the Reserve Banks might result in economies to the Treasury Department, this would add to the expenses of the Reserve Banks and they are also interested in economy.

Governor Szymczak also said that President Young brought up at the meeting of the policy committee the matter of policing subscriptions for issues of Treasury securities which was discussed at the joint meeting of the Board and the Reserve Bank Presidents on December 15, 1953, and that it was decided to ask President Leach, Chairman of the Presidents' Conference, to appoint an ad hoc committee which would meet with Mr. Bartelt and attempt to work out a procedure for the issuance of instructions to the Federal Reserve Banks.

Messrs. Riefler, Thomas, and Youngdahl then withdrew from the meeting.

Prior to this meeting there had been circulated among the members of the Board alternative drafts of a letter to the Madison Trust Company, Madison, New Jersey, concerning the trust company's application for membership in the Federal Reserve System. The drafts were the same except that one would require the trust company to dispose of all of its stock in The First National Bank of Madison, Madison, New Jersey, within six months after date of admission to membership in the System, while the

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other would require that such stock be disposed of within six months from date of notice by the Board of Governors requiring such action. The Federal Reserve Bank of New York had recommended that the trust company not be required to dispose of the stock within any fixed period.

Governor Robertson summarized the circumstances involved, as set forth in a memorandum dated December 22, 1953, from the Division of Examinations, the application for membership filed by the trust company, and other documents relating to the matter, including data supplied by the Federal Reserve Bank of New York. On the basis of all the facts, it was his recommendation that Madison Trust Company should be required, as a condition of membership, to dispose of its holdings of stock of The First National Bank of Madison within six months from the date of the trust company's admission to membership in the System.

Thereupon, unanimous approval was given to a letter to the Board of Directors of Madison Trust Company, for transmittal through the Federal Reserve Bank of New York, stating that the Board of Governors approved the trust company's application for membership in the Federal Reserve System and for stock in the Federal Reserve Bank of New York, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, and the following special condition:

3. Such bank shall within six months after the date of its admission to membership in the Federal Reserve System dispose of the ownership of all stock of The First National Bank of Madison, Madison, New Jersey.

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Prior to this meeting there had been sent to the members of the Board copies of (1) a memorandum prepared by Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, under date of January 6, 1954, stating his understanding as to the points which were discussed at the meeting of the Board and representatives of the Boston Bank on January 5, with regard to the question whether savings department guaranty funds maintained by member banks in certain States in the First Federal Reserve District should be regarded as surplus for purposes of subscriptions to Federal Reserve Bank stock; (2) a memorandum dated January 11 from Mr. Hooff, Assistant Counsel, summarizing the principal considerations set forth in Mr. Schlaikjer's memorandum of December 29, 1953 (copies of which were distributed at the meeting on January 5), which appeared to have been the basis for the position taken by the Boston Reserve Bank; and (3) a memorandum from Mr. Hackley dated January 12 submitting the two memoranda for the Board's information and stating that they did not appear to affect the basic considerations involved as previously presented to the Board.

Mr. Hackley reviewed the circumstances involved in the issuance of additional Federal Reserve Bank stock by the Federal Reserve Bank of Boston in 1953, based on the treatment of the savings department guaranty funds as surplus for that purpose. He then stated that if the question had been presented to the Board by the Boston Bank in advance of the action,

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the Legal Division probably would have taken the position that the guaranty funds should not be regarded as surplus for the purpose in question. He felt, however, that the question was debatable and that in view of all the circumstances, including the relatively small amounts of the guaranty funds and of the Reserve Bank stock issued against them, the fact that the problem is limited to the First Federal Reserve District, and the fact that the Reserve Bank's action would not constitute a precedent for treating other funds of member banks as surplus, the question was largely whether the Board, as a matter of policy, would want to require the Boston Bank to reverse itself or whether the Board would go along with the action of the Reserve Bank, with the understanding that the principle involved should not be extended to other bank accounts.

During a discussion of the matter, Governor Robertson expressed the opinion that from a legal standpoint it would be preferable not to treat the guaranty funds as surplus. However, he felt that the matter was not of such importance that the Board should require the Boston Bank to reverse its position. Governor Robertson also noted that from Mr. Schlaikjer's memorandum of December 29 and statements which Mr. Schlaikjer made at the meeting on January 5, the Boston Bank apparently had gained the impression from informal conversations with representatives of the Board's Division of Examinations that inasmuch as the problem was limited to the New England area, it would be satisfactory to handle the

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matter locally. Although it appeared that there may have been a misunderstanding on this point, he felt that it constituted a further reason why the Board should not require the Boston Bank to reverse its action.

Following statements by the other members of the Board indicating that they concurred in the view expressed by Governor Robertson, it was agreed that a letter to the Federal Reserve Bank of Boston should be drafted for the Board's consideration.

All of the members of the staff except Mr. Carpenter then withdrew from the meeting.

Consideration was given to the appointment of directors of the Jacksonville Branch, Federal Reserve Bank of Atlanta, the discussion being based on data previously sent to the members of the Board by the Division of Personnel Administration concerning persons who had been recommended for appointment to fill the two existing vacancies.

Thereupon, it was voted unani-
mously to request Mr. Harris, Chairman of the Federal Reserve Bank of Atlanta, to ascertain and advise the Board (1) whether Mr. J. Wayne Reitz, Provost, College of Agriculture, University of Florida, Gainesville, Florida, would accept appointment, if tendered, as director of the Jacksonville Branch for the unexpired portion of the term ending December 31, 1954, and (2) whether Mr. McGregor Smith, President and General Manager, Florida Power and Light Company, Miami, Florida, would accept appointment, if tendered, as director of the Jacksonville Branch for the unexpired portion of the term ending December 31, 1956.

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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 except Governors Vardaman and Evans present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 15, 1954, were approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency) reading as follows:

Reference is made to a letter from your office dated December 23, 1953, enclosing photostatic copies of an application to convert the Florida Bank at Gainesville, Gainesville, Florida, into a national banking association.

The Florida Bank at Gainesville is an insured nonmember bank which was organized in 1914 under the title of "Phifer State Bank". In 1946 control was acquired by the Alfred I. du Pont Estate, and the present title was assumed.

The Federal Reserve Bank of Atlanta reports favorably on the basis of a report of examination of the Florida Bank at Gainesville made by an examiner for the Federal Deposit Insurance Corporation as of September 22, 1953, with respect to factors usually considered in connection with such applications. The Board of Governors, therefore, recommends that the application be approved.

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.

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

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Federal Reserve System hereby certifies that the American Bank, Fort Lauderdale, Florida, became a member of the Federal Reserve System on January 8, 1954, 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