

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 8, 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. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Leonard, Director, Division of Bank Operations

There was presented a request from Mr. Carpenter for authority to travel to Philadelphia, Pennsylvania, on February 18, 1954, to attend, at the invitation of President Williams, a meeting of the directors of the Federal Reserve Bank of Philadelphia and a meeting with the men who have participated in the Reserve Bank's executive training program.

Approved unanimously.

Reference was made to a request which had been received that Mr. Riefler, Assistant to the Chairman, or Mr. Youngdahl, Assistant Director, Division of Research and Statistics, speak on monetary policy on April 23, 1954, during the Business Economists Conference being arranged by the School of Business of the University of Chicago.

Acceptance of the invitation by either Mr. Riefler or Mr. Youngdahl was approved unanimously.

Prior to this meeting there had been circulated among the members of the Board a draft of letter to Mr. Gentry, First Vice President

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of the Federal Reserve Bank of Dallas, reading as follows:

This is in reply to your letter of January 18, 1954, advising that the Board of Directors, upon recommendation of committees representing the Boards of Directors of the Head Office, Houston and El Paso branches, had voted unanimously to recommend to the Board of Governors that the Bank acquire building sites at Houston and El Paso with the view to constructing new buildings at those locations. You further reported that the committees referred to above, as well as the Bank's Board of Directors are of the opinion that it would be wholly impracticable to attempt to remodel the present buildings at Houston and El Paso.

The Board of Governors authorizes your Bank to undertake to find suitable sites for new branch buildings at Houston and El Paso, and will be prepared to act upon any specific proposals you may submit.

It is noted from your letter that estimates as to the size and cost of buildings to take care of present and future requirements for the next 20 to 25 years are as follows:

	<u>Houston</u>	<u>El Paso</u>
Gross square feet	100,000	50,000
Estimated costs:		
Total	\$ 2,750,000	\$ 1,300,000
"Building proper"	1,650,000	780,000

In each case the number of square feet is 10,000 greater and the cost about 20 to 30 per cent higher than the estimates submitted August 28, 1952, in response to the Board's letter of June 27, 1952, requesting information regarding contemplated building programs.

In that letter the Board referred to the desirability of the System's considering, in connection with building programs, the size and scope of the activities which Federal Reserve buildings should be planned to accommodate over the next 20 to 25 years.

While such planning is basic in developing a building program, it does not necessarily follow that at the outset a building should be constructed to accommodate the maximum anticipated. In view of the uncertainties as to future developments, such as nature and scope of additional functions, the possibility of further mechanization of processes, etc., the better course might be to plan a building to accommodate present operations and additional space for a reasonable and normal expansion of operations,

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with provision for major expansions to be made through the construction of a wing or other lateral addition. The important thing in such cases is to so plan a building and its location on the site that the addition, if one is necessary, could become an integral part of the original plan.

Furthermore, the amount that may be spent for branch buildings is limited by statute. The amount authorized provided relatively little margin over the estimates submitted in response to the Board's letter of June 1952, and, as discussed with Mr. Austin during his recent visit, the increases in revised estimates already received on only some of the programs are in excess of that margin.

Governor Vardaman had requested that the proposed letter be discussed at a meeting of the Board, and the question he now raised for consideration was whether the Board should authorize the Reserve Bank to proceed further with respect to plans for new branch buildings at Houston and El Paso until a President of the Bank had been selected.

Following a discussion of the matter, during which it was suggested that the selection of a President of the Dallas Bank would be made before a decision was necessary on the acquisition of specific sites for the branch buildings, the letter to Mr. Gentry was approved unanimously.

Mr. Leonard then withdrew from the meeting.

The Clerk of the Senate Banking and Currency Committee having advised Mr. Cherry, the Board's Legislative Counsel, that hearings on bill S. 2555, to repeal the Silver Purchase Act and certain other statutory provisions, were to be held before a subcommittee during the week of February 15, 1954, and that a report from the Board was desired, a draft of letter to Senator Capehart, Chairman of the Committee, had been prepared

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and placed in circulation among the members of the Board. At this meeting Governor Mills suggested a change in the draft so that the letter would read as follows:

This is in response to Mr. Dixon's letter of August 5, 1953, requesting an opinion as to the merits of the bill S. 2555 "To repeal certain legislation relating to the purchase of silver, and for other purposes".

This bill would repeal the Silver Purchase Act of 1934, Section 4 of the Act of July 6, 1939, the Act of July 31, 1946, and certain sections of the Internal Revenue Code. It would provide for the maintenance by the Treasury Department of certain reserves in silver bullion or silver dollars against outstanding silver certificates and for the exchange of silver certificates on demand for silver dollars; and it would authorize the Secretary of the Treasury to coin silver dollars and to provide for subsidiary silver coinage.

The principal effect of the bill would be to eliminate from the law provisions fixing the price at which silver is purchased by the Secretary of the Treasury. Under present law, the price is fixed at 90.5 cents per fine ounce. Since the free market price of silver is approximately 85 cents an ounce, all domestic production of silver is sold to the Treasury; and the Treasury, by virtue of the Act of July 31, 1946, may not sell silver at less than 90.5 cents an ounce.

To the extent that silver purchased by the Treasury may be monetized through coinage or through the issue of silver certificates, such purchases have the effect of increasing the country's money supply with a resulting increase in bank reserves and in the base for credit expansion. Such arbitrary additions have no relation to the need for bank reserves and, from a credit point of view, are unnecessary as long as the supply of gold and Federal Reserve credit continues to be ample. Additions to bank reserves through monetization of silver have been relatively small in amount, however, and can be offset, if necessary, so that the purchase of silver does not substantially affect the general credit or monetary situation at this time.

The Federal Reserve has expressed the view on several occasions in the past that it would not be desirable to extend

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the role which silver plays in our monetary system. Due to the factors pointed out above, it would appear that sound reasons continue to exist for revision of the present silver purchase laws.

Following discussion, the letter was approved unanimously in the form set forth above, with the understanding that before it was transmitted to Senator Capehart, a copy would be sent to the Bureau of the Budget, in accordance with the usual practice, with a request that the Board be advised as to the relationship of the proposed legislation to the program of the President.

At this point Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, and Youngdahl, Assistant Director, Division of Research and Statistics, entered the room, and there was an informal discussion of developments in the Government securities market.

At the conclusion of this discussion, the meeting adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Robertson present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 5, 1954, were approved unanimously.

Telegram to Mr. Bryan, President, Federal Reserve Bank of Atlanta, reading as follows:

Reurtel February 8, Board approves effective February 9, 1954, rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances under Section 10(b); and 3-1/4 per cent on advances to individuals, partnerships or corporations other than member

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banks under last paragraph of Section 13. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram February 8. Board's announcement on change in discount rate will be handed to press at 3:45 p.m., Eastern Standard Time, today for immediate release.

Approved unanimously, with the understanding that advice of this action would be sent by telegram to the Presidents of all Federal Reserve Banks and that a notice of the action would be sent to the Federal Register.

Memorandum dated February 3, 1954, from Mr. Horbett, Assistant Director, Division of Bank Operations, recommending that the resignation of Dorothy F. Burton, Clerk-Stenographer in that Division, be accepted effective February 12, 1954.

Approved unanimously.

Letter to the Board of Directors, Citizens Trust Company, Atlanta, Georgia, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors approves the establishment and operation of a branch at 965 Hunter Street, S. W., Atlanta, Georgia, by the Citizens Trust Company, Atlanta, Georgia, provided the capital structure of the bank is increased by the sale of sufficient new stock to produce not less than \$100,000 additional capital funds, formal approval of the appropriate State authorities is obtained, and the branch is established within six months from the date of this letter.

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

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

Referring to your letter of January 28, 1954, the Board approves the transfer of the counties of Ontario,

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Steuben, Wayne, and Yates in New York State from the Head Office territory to that of the Buffalo Branch.

It will be appreciated if you will notify the Board as soon as the effective date of the change is determined.

Approved unanimously.

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

This is in further reference to your letter of December 18, 1953, and its enclosures, concerning deposits in member banks of court and trust funds and the status of such funds under Regulation Q.

Briefly, it appears from your letter that it is the practice of county officers in New York State to deposit certain court and trust funds with commercial banks; that under New York law such funds must receive interest at a rate not less than  $3/4$  of 1 per cent or 1 per cent under the discount rate of the Federal Reserve Bank of New York, whichever is the greater; and that the current applicable rate is 1 per cent. It appears further that member banks have been handling such deposits under Regulation Q as "time deposits, open accounts", withdrawable after 30 days' advance written notice and on which interest at a maximum rate of 1 per cent is permissible under the present regulation.

However, as the rate of interest on "savings deposits" has been increased to 2 per cent or higher in many of the banks, it is related that the interested county officers fail to understand why they cannot receive the higher rate on the deposits in question. You indicated that the situation is further complicated competitively because under New York law such deposits apparently may be made in savings banks which are not subject to restrictions such as those contained in Regulation Q.

In your letter you recommended that the Board issue an interpretation "that court and trust funds under the jurisdiction of a public officer may be received as savings deposits by member banks provided: (a) that State law authorizes the deposit of such funds in savings banks, and (b) that

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State law requires the payment of interest on such deposits".

In urging such an interpretation, you pointed out that determination of beneficial ownership of the funds frequently is the very question pending in court during the period of the deposit; that the position of the New York authorities is that court and trust funds held by county officers must be deposited in a single account for each court or separately for each action; that a separate account for each action would not be feasible; that the amount of funds affected is relatively small; that the greater amount of such funds actually represents funds the beneficial interest in which would clearly become vested in individuals; that in those cases in which the beneficial interest is in profit-making corporations, the funds are tied up in litigation or bankruptcy proceedings and not available for ordinary business transactions; and that, in any case, withdrawals of such funds may be made only on court order.

All of these factors have been given consideration. However, under section 1(e) of Regulation Q, which has not been changed in this respect since 1936, "savings deposits" must consist of funds deposited to the credit of individuals or of nonprofit organizations of the kinds described in the regulation or funds in which the entire beneficial interest is held by individuals or by such corporations. Substantially similar language is contained in the corresponding regulations of the Federal Deposit Insurance Corporation. For many years the principles stated in Regulation Q have been uniformly reflected in interpretations of the Board, including those published in the 1936 Federal Reserve Bulletin, pages 119, 191, and 247, and in the Board's letter of April 3, 1937 (X-9861; F.R.L.S. #6363).

In the circumstances, the Board feels that it could not properly interpret Regulation Q as permitting funds of the kind here involved, in which, to some extent, profit-making corporations have a beneficial interest, to be classified as savings deposits. It is believed that to do so would be not only contrary to the long-standing principles referred to above, but would not be in harmony with the language of the regulation. While the matter might be a proper subject for amendment to the regulation, it has

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not been studied with a view to that possibility. If, however, you feel that the regulation should be amended and should like to submit a proposed amendment, such a proposal, of course, would be given full consideration.

Approved unanimously.

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

Reference is made to your letter of January 26, 1954, submitting request of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, for the Board's approval of the following additional investments in bank premises:

Increased cost of air-conditioning	\$488,000
the main building,	
Purchasing and equipping temporary	52,500
building to house the Downtown Office,	
Vault construction and equipping	70,000
quarters to be leased for this branch,	
Alterations and improvements to the	60,000
Marcus Hook branch.	

After considering all available information, the Board of Governors approves the additional investment by Fidelity-Philadelphia Trust Company and/or Fidelity Building Corporation in the above amounts and for the purposes indicated.

On the basis of the facts submitted, it appears the temporary change in location of the Downtown Office from 4th and Chestnut Streets to 3rd and Chestnut Streets will constitute a relocation of an existing branch in the immediate neighborhood without material effect on the nature of the business now conducted by the branch or in the composition of its clientele. The Board concurs in your opinion that this change in location will not constitute the establishment of a branch within the meaning of Section 9 of the Federal Reserve Act and, therefore, the Board's approval is not required.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller

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of the Currency) reading as follows:

Reference is made to letters from your office dated March 25 and November 30, 1953, with reference to an application to organize a national bank at Ridgecrest, California, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco indicates that a capital structure of \$200,000 is to be provided for the bank instead of \$350,000 proposed in the application. While this capital structure may be sufficient upon organization of the bank, its adequacy may be open to question if the volume of business anticipated by the proponents is attained after the first year of operation. This report also expresses some doubt as to the competency of the proposed management of the bank and as to the prospects of the institution to operate profitably. From the information available there appears to be a need for more convenient banking services in this community, and the establishment of a bank or a branch might be justified if other factors were favorable. However, after careful consideration of the situation and the information with respect to the various factors set forth in your letter, the Board of Governors does not feel justified in recommending approval of this application.

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.



Secretary