

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 11, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Hackley, Assistant General Counsel  
Mr. Connell, Technical Assistant, Office  
of Defense Loans

Governor Vardaman presented for the Board's consideration a request by General Services Administration that the Federal Reserve Bank of San Francisco make a loan in the amount of \$800,000 under section 13b of the Federal Reserve Act to Pioche Manganese Company, Inc., Salt Lake City, Utah, with the understanding that General Services Administration, as a guaranteeing agency under the V-loan program, would guarantee the loan up to 100 per cent.

During the discussion of the matter, reference was made to the following documents:

Letter dated March 2, 1954, from Mr. Max Medley, Comptroller of General Services Administration, to Mr. Connell stating that Pioche Manganese Company, Inc., had advised of its inability to obtain a loan from private sources, that it was the desire of General Services Administration that the Federal Reserve Bank of San Francisco consider the company's application, and that the Administration was prepared to guarantee, up to 100 per cent if required, an

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\$800,000, four-year loan secured by a lien on the Pioche facilities. The letter, which also indicated that representatives of the company would present details of the proposed loan to the Reserve Bank the next week, had been forwarded to the San Francisco Reserve Bank by the Board's Office of Defense Loans.

Telegram dated March 9 from Mr. Earhart, President of the Federal Reserve Bank of San Francisco, to the Board stating reasons why it appeared to the Reserve Bank that any extension of credit to Pioche Manganese Company, Inc., must be predicated entirely on a 100 per cent guarantee by General Services Administration and must be justified as being advanced in the interests of the national defense. The telegram stated that before reaching a decision the Reserve Bank felt that it needed more information as to how the loan would advance national interests and that the views of the Board and General Services Administration would be helpful.

Letter dated March 10 from Mr. Medley to Mr. Connell urging that the Reserve Bank consider the loan with the assurance that the loss of manganese production involved would have a serious and detrimental effect on the national defense effort, including the national stockpile and manganese expansion programs. The letter also stated that General Services Administration was desirous of utilizing existing lending and servicing facilities in those instances where Government financial assistance was required, and that it felt that every effort should be made to meet the Government objective through V-loan financing, with the alternative of advance payments used only as a last resort. This letter also had been sent to the Federal Reserve Bank of San Francisco by the Office of Defense Loans.

It was stated that the matter was discussed yesterday afternoon by Governor Vardaman and members of the Board's staff, and that Mr. Hackley had called Mr. O'Kane, General Counsel for the San Francisco Reserve Bank, on the telephone to discuss the question whether

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the proposed loan would meet legal requirements, particularly the requirement that section 13b loans must be for the purpose of obtaining working capital. Thereafter, Mr. O'Kane wired Mr. Hackley that according to present information the Reserve Bank understood that approximately \$400,000 would be used to retire vouchers payable, two to five months past due, and that approximately the same amount would be used to retire notes payable to cover what Mr. O'Kane was informed were purchases of ore supplies, etc. Mr. O'Kane also stated in his telegram that the file did not indicate whether the full amount of the loan met the "working capital" requirement, but that in his opinion, and based on the limited time afforded to consider the matter, a good case could be made for all of the vouchers payable and possibly a substantial portion or all of the notes payable, depending on further facts to be developed.

In commenting on the matter, Mr. Vest said that the commitment made to Pioche Manganese Company, Inc., by General Services Administration that the Administration would guarantee the loan up to 100 per cent apparently was made orally and that it was made without the knowledge of the Federal Reserve Bank or representatives of the Board, although the question of the making of the loan by a commercial bank had previously been taken up with the San Francisco Reserve Bank.

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Governor Vardaman said there was some question whether Mr. Earhart's telegram of March 9 should be interpreted as requesting the Board's opinion concerning the advisability of making the loan or whether Mr. Earhart's question related entirely to the necessity for the loan under the national defense program. With respect to the question of necessity, he pointed out that the only information available to the Board was that contained in the March 10 letter from General Services Administration. With respect to the advisability of making the loan, he felt that inasmuch as the matter had come to the Board's attention, the Board probably should raise with the Reserve Bank the question whether the loan could be made pursuant to the statutory requirements contained in section 13b. Governor Vardaman went on to say that while there appeared to be no doubt concerning the Reserve Bank's ability to recover under the guarantee, if necessary, there might be some question as to the propriety of the Reserve Bank's calling on the guarantee if it made the loan without being fully satisfied that the loan complied with the law.

Governor Vardaman also said that he had discussed the matter by telephone with Mr. Boothe, Administrator of the Office of Defense Loans, who appeared to be of the opinion that the Board should call to the attention of the San Francisco Bank the fact that some doubt

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existed as to whether the loan would comply with the statute.

Further discussion concerned the responsibilities of the Board, as compared with those of the Reserve Banks, in the making of loans under section 13b, interpretations of the working capital requirement by the Board and the Reserve Banks in the past, provisions of the Defense Production Act bearing on the making of guaranteed defense production loans by Federal Reserve Banks, and reasons why it appeared that Pioche Manganese Company, Inc., was not in a position to obtain financial assistance through other Government or private channels.

At the conclusion of the discussion, unanimous approval was given to a telegram to President Earhart reading as follows:

Re your telegram March 9 regarding Pioche Manganese loan. Board has no information with reference to necessity in conjunction with national defense other than contained in letter from General Services Administration to Board which we conveyed to you yesterday by wire. In the light of very limited information so far available to the Board it has considerable question whether loan would be one to supply working capital as required by section 13b. Board assumes that you will be fully satisfied that loan complies with law in this as well as in other respects in event you should decide to make the loan.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Evans present:

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 10, 1954, were approved unanimously.

Letter to the Board of Directors, The Union and New Haven Trust Company, New Haven, Connecticut, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch in a new shopping center on Dixwell Avenue near the intersection with Wilbur Cross Highway in the Town of Hamden, Connecticut, by The Union and New Haven Trust Company, New Haven, Connecticut, provided the branch is established by April 1, 1955.

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

Letter to the Board of Directors, Peoples State Bank of Baldwin, Baldwin, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by the Peoples State Bank of Baldwin, Baldwin, New York, on the southwest corner of Grand Avenue and Irene Street in an unincorporated area of the town of Hempstead, Nassau County, New York, provided that, prior to the establishment of the branch, the bank's capital stock shall be increased to not less than \$200,000 by the sale of a sufficient amount of new stock to produce not less than \$175,000 of additional capital funds, and the branch is established within nine months of the date of this letter.

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

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Letter to the Board of Directors, Bank of Huntington and Trust Company, Huntington, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment and operation of a branch in the vicinity of the intersection of Broadway with Ann Street, Village of Greenlawn, Township of Huntington, New York, by Bank of Huntington and Trust Company, Huntington, New York, provided the branch is established by September 3, 1954.

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

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

In view of the recommendation contained in your letter of March 1, 1954, the Board of Governors hereby approves the retirements of preferred stock totaling \$15,000 by The State Trust Company at Plainfield, Plainfield, New Jersey, as of January 30, 1953, July 30, 1953 and January 29, 1954, respectively, in the amounts of \$5,000 each, although the Board's prior consent to such retirements was not obtained in accordance with the requirement of the Federal Reserve Act. Please advise the trust company accordingly.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in effecting the retirements.

Approved unanimously.

Letter to Mr. Heath, Assistant Cashier, Federal Reserve Bank of Chicago, reading as follows:

This refers to your letter of March 3 regarding the penalties of \$9.21 and \$158.25 incurred by the American Trust and Savings Bank, Dubuque, Iowa, on deficiencies in reserves during the seven-day period ended February 24 and the four-day period ended February 28, 1954.

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It is noted that the penalties resulted from the fact that the subject bank was not adequately informed of the adjustment in reserve computation periods necessitated by the termination of the reserve city designation of Dubuque on March 1, 1954; that the member bank had planned to borrow on March 1 an amount sufficient to bring the bank's reserve balance up to a point that would meet the current week's requirement and compensate for the previous week's deficiency as well; and that this adjustment in its reserve position could not be made because the bank's reserve computation period was changed from a weekly to a semi-monthly basis effective March 1, 1954.

In the circumstances, the Board authorizes your Bank to waive assessment of the two penalties above mentioned.

Approved unanimously.

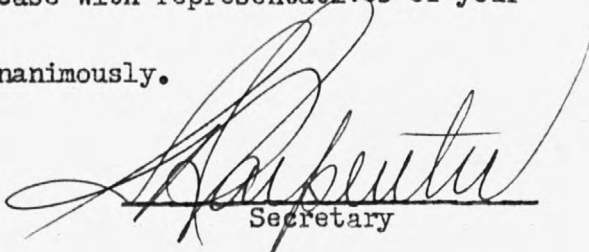
Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated February 1, 1954, enclosing photostatic copies of an application to convert Manatee River Bank and Trust Company, Bradenton, Florida, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

The Manatee River Bank and Trust Company has been a member of the Federal Reserve System since 1940 and, on the basis of a report of examination as of September 19, 1953, and information received from the Federal Reserve Bank of Atlanta, favorable findings are indicated with respect to all of the factors usually considered in connection with the issuance of charters for national banking associations. Therefore, the Board of Governors 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.

  
Secretary