

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 12, 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. Leonard, Director, Division of Bank
Operations
Mr. Sloan, Director, Division of Examinations

The following draft of letter to Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, had been circulated among the members of the Board and was presented for consideration at this meeting because the position taken therein was different from that recommended by the Reserve Bank:

Reference is made to your letter of February 18, 1954, submitting a request of the American Trust Company, San Francisco, California, for permission to place upon its books the fixed assets recently acquired from The First National Bank of Los Gatos at the amounts at which they were acquired rather than the depreciated value for income tax purposes, as provided in the Board's letter of February 2, 1954.

In transactions involving absorption of one bank by another through purchase of assets and assumption of deposit liabilities, it is customary for the Board to require that fixed assets so acquired be placed upon the books of the purchasing bank at a figure not in excess of the depreciated value as computed for Federal income tax purposes. The selling bank, as a going concern, would not be permitted to write up the value of these assets beyond such depreciated value. In the case in question

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it may well be that the assets purchased have a market or utility value to the purchasing bank greater than the depreciated value at which they were carried by the selling bank. However, the Board believes that it is not in the interests of sound banking practice that the purchasing bank be permitted to place fixed assets on its books at a higher value than the depreciated value as computed for Federal income tax purposes. Therefore, after careful consideration of all the facts, the Board is of the opinion that it should make no changes in its previously expressed requirements.

During a discussion of this matter, question was raised whether the same general rule for asset valuation should be followed in the case of an absorption through purchase of assets and assumption of deposit liabilities as in the case of a merger. A further question was whether the circumstances of the American Trust Company case were such as to warrant making an exception to the general rule.

Governor Robertson stated that the position taken in the draft letter reflected the procedure customarily followed by the Board. He said that while there was room for exceptions in unusual circumstances, he did not believe that an exception should be made in the American Trust Company case, where the question was not of great significance, since that would create an undesirable precedent for other cases, in which the application of the general rule might be of more importance.

At the conclusion of the discussion, the letter to Mr. Millard was approved unanimously in the form set forth above.

The following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor,

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Deputy Comptroller of the Currency), also had been circulated among the members of the Board and was presented for consideration at this meeting because the views stated therein were at variance with the recommendation of the Federal Reserve Bank of Atlanta:

Reference is made to a letter from your office dated February 17, 1954, transmitting additional information with respect to the application to organize a national bank at Miami Springs, Florida, and requesting advice as to whether or not the Board would be inclined to change its former adverse recommendation.

Based upon information obtained from the Federal Reserve Bank of Atlanta with respect to the revised plans of the organizers, it now appears that the proposed capital structure of the bank would be adequate, and that the management would be relatively satisfactory. As indicated in our previous letter, however, the prospects for earnings of the bank would be only fair, and there was some question as to the need for additional banking facilities in the community. While it is recognized that this is a borderline case, after careful consideration of the situation in the light of the proposed changes in the capital structure and management of the bank, the Board of Governors now feels that it would be justified in recommending approval of the 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.

There had been circulated among the members of the Board a draft of telegram to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, stating that the Board would interpose no objection to the purchase, at a price not to exceed \$40,000, of certain property at the north end of the lot on which the Reserve Bank's Portland Branch is located. As stated in a letter from President Earhart dated March 8,

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the property in question was a small irregular-shaped lot, containing approximately 1,400 square feet, on which there was situated a one-story and basement building occupied and owned by a non-profit organization which had decided to liquidate. While the Portland Branch had no immediate need for the building, the Reserve Bank thought it desirable to obtain control of the property to round out the lot and to forestall undesirable occupancy of the building. The purchase, recommended by the branch directors, was concurred in by the head office directors.

In a memorandum dated March 10 which had been circulated among the members of the Board along with President Earhart's letter and the proposed telegram, Mr. Leonard recommended that the Board interpose no objection to the purchase of the property.

Following a discussion, the telegram to President Earhart was approved unanimously.

Prior to this meeting there had been circulated among the members of the Board a draft of letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

Your letter of January 26, 1954, states that the directors of your Bank have voted to discontinue, effective March 27, 1954, the carrying of purchased insurance covering fire risks on the Bank's buildings situated in New York City and on the bank-owned contents of such buildings. The purchase of such coverage would be discontinued at the Buffalo Branch upon the completion and occupancy of the new building which the Bank contemplates constructing in Buffalo.

On the basis of the reasons contained in your letter, and the memorandum of the Officers Insurance Committee attached thereto, the Board has no objection to the Reserve Bank's discontinuing, effective March 27, 1954, the purchase of insurance covering fire and allied risks.

Approved unanimously.

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There were presented proposed telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas stating that the Board approved the establishment without change by the Federal Reserve Bank of St. Louis on March 10 and by the other seven Reserve Banks on March 11, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Governor Vardaman referred to a request which had been made of Mr. Connell, Technical Assistant, Office of Defense Loans, by a representative of Price, Waterhouse and Company for certain information with respect to guaranteed V-loans. The public accounting firm had been engaged by the Commission on Organization of the Executive Branch of the Government (the "Hoover commission") to prepare a report on Government lending agencies. Mr. Connell had explained the functions of the Board and the Federal Reserve Banks in relation to the V-loan program and had stated the reasons why the Board and the Banks followed the policy of furnishing only general information on the V-loan program and referring requests for information on specific loans to the appropriate guaranteeing agencies. The inquirer, however, apparently felt that the information requested should have been made available and took the matter up with his superior, who contacted Chairman Martin.

Governor Vardaman said that representatives of the accounting firm subsequently were in touch with representatives of the Defense Department, that the position of the Federal Reserve in the matter had been

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explained, and that a full understanding had been reached, with agreement on the part of the representatives of Price, Waterhouse and Company that the Board's policy was the proper one.

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:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 11, 1954, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointment, effective upon the
date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Type of appointment</u>	<u>Basic annual salary</u>
James R. Jordan, Cafeteria Laborer	Administrative Services	Temporary (two months)	\$2,552

Salary increases, effective March 14, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Office of the Secretary</u>		
Ruth W. Franta, Supervisor, Bank and Miscellaneous Records		\$3,785	\$3,910
	<u>Research and Statistics</u>		
Abigail Banghart, Clerk-Stenographer		3,335	3,415
Helen R. Grunwell, Chief Draftsman		5,560	5,685
Mary P. McCormick, Draftsman-Illustrator		4,580	4,705
Elizabeth N. Tyson, Library Assistant		3,415	3,495

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Salary increases, effective March 14, 1954 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>International Finance</u>			
Dorothy G. Bujno, Clerk-Stenographer		\$3,660	\$3,785
<u>Examinations</u>			
Elizabeth A. Kropog, Stenographer		3,255	3,335
<u>Personnel Administration</u>			
Rubye M. Zacharay, Clerk		3,110	3,190
<u>Administrative Services</u>			
Karl J. Steger, General Mechanic- Operating Engineer		3,935	4,035
Shirley S. Corbin, Elevator Operator		2,490	2,560

Return of employee to salary status

Recommendation that, subject to her continued physical improvement and a favorable report of examination by the Board's physician, Catharine A. Fornof, Clerk-Stenographer in the Division of Bank Operations, who has been on leave since February 2, 1953 (on leave without pay since April 16, 1953) be returned to salary status when she reports for duty, the salary for such period as she works half-time to be paid at the rate of one-half of her basic annual salary rate, \$3,495. It was expected that Mrs. Fornof would be able to work half-time beginning April 5, 1954, and full-time beginning May 3, 1954.

Approved unanimously.

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

In accordance with the request contained in your letter of March 9, 1954, the Board approves the appointments of

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Ronald A. D'Arcangelo and George T. Gearty as assistant examiners for the Federal Reserve Bank of New York. Please advise as to the dates upon which the appointments are made effective.

The Board also approves the designation of Stephen K. Frank and Stephen T. Lederleitner as special assistant examiners for the Federal Reserve Bank of New York.

Approved unanimously.

Letter to Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

This refers to your letter of March 10, 1954, with which you enclosed a copy of a subpoena of the United States District Court, District of South Dakota, which has been served upon Mr. A. J. McNulty, an examiner of your Bank, requiring him to testify and produce certain records before a grand jury on March 18 at Sioux Falls, South Dakota, investigating certain matters involving Mr. Floyd M. Fladmoe, formerly cashier of the Bank of Belle Fourche, Belle Fourche, South Dakota.

From your letter it is noted that, while it is the desire of your Bank to cooperate fully with the Department of Justice and the United States District Attorney in this connection, your Bank does not regard it necessary or desirable that the reports of examination and particularly the confidential section of such reports with respect to the Bank of Belle Fourche should be produced before the grand jury.

It is noted further that it is your thought that, in responding to the subpoena, Mr. McNulty should have with him copies of the supplemental report entitled "Supplemental Information Concerning Misuse of Bank Funds by F. M. Fladmoe" and (subject to the above limitation concerning the reports of examination) all of the line sheets, memoranda, work papers and confessions which are available at your Bank and which relate to the irregularities at the Bank of Belle Fourche involving Mr. Fladmoe.

The Board has no objection to Mr. McNulty's appearance before the grand jury in reply to the subpoena with the understanding that the records supplied by him pursuant to the subpoena will be limited at this time as indicated above.

Approved unanimously.

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Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

This is in response to your letter of March 3, 1954, to Mr. Sloan with which was enclosed a copy of a letter which your Bank has received from Mr. George C. Whitten, Senior Vice President of the City National Bank, Lawton, Oklahoma. The question raised by Mr. Whitten's letter is whether the reporting provisions of Section 22(g) of the Federal Reserve Act and Section 5 of Regulation O require an executive officer of a member bank to report borrowings from another member bank by a partnership in which the executive officer (or officers) has less than a 50% interest.

As you know, the reporting provisions of the statute and Regulation O are silent on the question as to whether executive officers of member banks in reporting indebtedness to other member banks must include partnership indebtedness, although the prohibition in both the statute and the Regulation against borrowing by executive officers in excess of \$2500 from member banks of which they are executive officers extends to a partnership in which one or more executive officers of a member bank are partners and have either individually or together a majority interest in the partnership.

It is the view of the Board that Regulation O does not require reporting in the circumstances described in Mr. Whitten's letter.

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This refers to your letter of March 4, 1954, requesting the Board's views with respect to a draft bill "To authorize the Central Bank for Cooperatives and the regional banks for cooperatives to issue consolidated debentures, and for other purposes", which has been proposed by the Farm Credit Administration.

The proposed bill would authorize the issuance of consolidated debentures by the Central Bank for Cooperatives and the regional banks for cooperatives, provided that the total outstanding amount of such debentures, plus individual debentures issued by the Central Bank under present provisions of law, shall not at any time exceed 10 times the aggregate capital and surplus of the Central and regional banks.

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It is noted that the consolidated debentures would be given "the same status with respect to exemptions, lawful investments, and acceptance as security for funds, deposits, borrowings, or otherwise" as is accorded by law to obligations issued by the Federal land banks and Federal intermediate credit banks under authority of the Federal Farm Loan Act, as amended. The Board seriously questions whether the favored status in these respects which has heretofore been accorded to obligations of the Federal intermediate credit banks and Federal land banks should be extended to apply to debentures issued by the banks for cooperatives, or would be of any practical usefulness if it were so extended. This bill apparently would make the proposed consolidated debentures eligible as collateral for advances by the Federal Reserve Banks to member banks and also eligible for purchase by the Reserve Banks, provided the debentures have maturities of not more than six months at the time of their purchase or acceptance as collateral. The Board feels that no constructive public purpose would be served by authorizing the Federal Reserve Banks to provide a secondary market in this type of obligation.

The bill would also have the effect of exempting the proposed debentures from the limitations and restrictions imposed by section 5136 of the Revised Statutes upon the authority of member banks to purchase, deal in, and underwrite investment securities. Under present law, if the proposed debentures comply with the requirements of that section, a member bank could invest up to 10 per cent of its capital and surplus in such debentures; and the Board sees no sound reason for permitting member banks to invest in such debentures in a greater amount. In this connection, it should be noted that by an Act of April 9, 1952, section 5136 was specifically amended to grant the individual debentures issued by the Central Bank for Cooperatives a limited exemption from the provisions of that section regarding the underwriting of investment securities; and the Board would not object to the granting of a similar limited exemption in the case of the proposed consolidated debentures.

For the reasons indicated, it is the view of the Board that enactment of the proposed legislation in its present form would not be desirable.

Approved unanimously.

Letter to Mr. James E. Baum, Deputy Manager, American Bankers Association, 12 East 36 Street, New York, New York, reading as follows:

Reference is made to your letter of March 5, 1954 addressed to Mr. Goodman of the Board's Division of Examinations, requesting

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a listing of defalcations amounting to \$10,000 or more reported by State member banks during the six months ended December 31, 1953.

There is enclosed a list showing three cases reported by the Board of Governors to the Attorney General of the United States involving possible criminal violations where the amounts involved \$10,000 or more. It is hoped that this information is in such form as to be suitable for the purposes of your Insurance and Protective Committee.

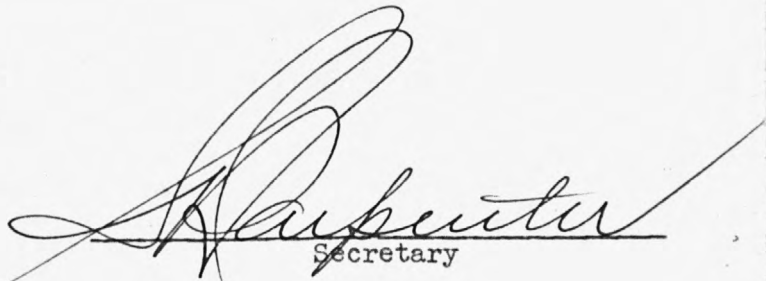
Approved unanimously.

Memorandum dated February 26, 1954, from Mr. Allen, Director, Division of Personnel Administration, recommending, for reasons stated, that J. Frank Holahan, recently-appointed Review Examiner in the Division of Examinations, be advised that the Board would not pay expenses incurred by Mr. Holahan incident to his moving to Washington, D. C., from his home in Pennsylvania.

Approved unanimously.

Memorandum dated March 8, 1954, from Mr. Allen, Director, Division of Personnel Administration, submitting a memorandum dated March 2, 1954, from Mr. Koch, Chief, Banking Section, Division of Research and Statistics, in which Mr. Koch reported certain developments relating to his interest in a family-owned corporation.

Noted without objection.



Secretary