

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 31, 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. Robertson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Myrick, Assistant Director, Division of Bank Operations
 Mr. Hexter, Assistant General Counsel
 Mr. Cherry, Legislative Counsel

The following requests for travel authorization were presented:

Mr. Solomon, Assistant General Counsel, and Mr. Goodman, Assistant Director, Division of Examinations. To travel to Boston, Massachusetts, during the period April 7-9, 1954, to attend the first meeting of the Special Committee on Foreign Operations of American Banks, to be held at the Federal Reserve Bank of Boston.

Mr. Leonard, Director, Division of Bank Operations. To travel to Chicago, Illinois, during the period May 3-8, 1954, to attend, as associate member, a meeting of the Presidents' Conference Subcommittee on Collections on May 4 and 5 and to attend, as the Board's representative, a meeting of the Insurance Committee of the Federal Reserve Banks on May 6 and 7.

Mr. Vest, General Counsel. To travel to Chicago, Illinois, during the period May 5-8, 1954, to attend a meeting of the Insurance Committee of the Federal Reserve Banks on May 6 and 7.

Approved unanimously.

3/31/54

-2-

The following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), had been circulated to the members of the Board and was presented for consideration at this meeting because the recommendation contained therein differed from the recommendation of the Federal Reserve Bank of Atlanta:

Reference is made to a letter from your office dated January 19, 1954, enclosing photostatic copies of an application to organize a national bank at Holden Heights, Florida, and requesting a recommendation as to whether or not the application should be approved.

Based upon information received from the Federal Reserve Bank of Atlanta, it appears that the proposed capital structure of the bank would be adequate and that the management of the bank would be fairly satisfactory. It is evident that the proposed bank would be an added convenience to the community, but there is some question as to the need for a bank and its future profitable operations. While it is recognized that this is a borderline case, after careful consideration of the situation, the Board of Governors recommends favorable consideration 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.

Following a discussion, the letter was approved unanimously.

There had been sent to the members of the Board prior to this meeting alternative drafts of a letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., prepared following receipt of the Bureau's letter of March 5, 1954, requesting the Board's views with respect to a draft of a bill to amend section 5240 of the Revised Statutes, as amended, which had been proposed by

3/31/54

-3-

the Treasury Department. The proposed bill would modify the present statutory requirement that every national bank be examined at least twice in each calendar year by authorizing the Comptroller of the Currency, in his discretion, to waive one such examination. The proposed bill also would amend the statutory provisions regarding the basis for calculating the assessment upon each national bank to defray the costs of examinations.

One of the drafts of reply, representing the views of members of the Board's staff, took the position that the Board would have no objection to the proposed amendment with respect to the minimum number of required examinations, while the other draft, representing the views of Governor Robertson, read as follows:

This is in response to your letter of March 5 requesting the Board's views with respect to a draft of a bill "To amend section 5240 of the Revised Statutes, as amended", which has been proposed by the Treasury Department.

The proposed bill would modify the present statutory requirement that every national bank be examined at least twice in each calendar year by authorizing the Comptroller of the Currency, in the exercise of his discretion, to "waive one such examination". The proposed bill also would amend the statutory provisions regarding the basis for calculating the assessment upon each national bank to defray the costs of examinations.

There is no doubt that, with respect to some banks, one thorough examination annually is sufficient for all ordinary supervisory purposes. However, the Board is inclined to feel that in most cases the primary supervising agency (the Comptroller of the Currency in the case of national banks) can perform its duties better if there are at least two examinations in each year. Where there are two examinations annually, the detailed information on the basis of which the supervisor forms his judgments is ordinarily reasonably up-to-date - not more than seven or eight months old at most; whereas where only one examination is made in each calendar year, the available information might be as much as fifteen months old.

3/31/54

-4-

The Board recognizes that the proposed statutory language retains "twice in each calendar year" as the normal frequency of examinations, and the Comptroller has indicated an intention to waive the second examination only in the case of banks whose management, capital adequacy, and asset condition are on a very high plane, and that the transition from two examinations to one examination yearly will be made gradually. Nevertheless, the Comptroller has expressed the opinion that "not less than 75% of the 4,890 national banks could meet the high standards necessary to qualify for less frequent examinations" - that is, for only one examination a year.

Consequently, it seems inevitable that, in the course of time, national banks examined twice annually would be regarded as falling short of the standard which would qualify them for the one-examination category. When this fact became known to the public, as it probably would through the efforts of competing banks or otherwise, the resulting danger of injury to the standing of banks examined twice yearly would be such that the Comptroller and the national bank examiners would be under considerable pressure to examine only once a year except in the case of banks whose condition was definitely unsatisfactory. If this were the effect of the proposed legislation, its enactment might result in one examination annually becoming the actual norm in practice; and the Board, as previously mentioned, has some question whether one examination annually is sufficient for fully effective primary supervision in the case of the "average" bank.

The proposed bill would provide that the amount of the annual assessment upon a particular national bank would be the same regardless of whether the bank was examined once or twice annually. Whatever may be the benefits of this arrangement, it must be borne in mind that one effect would be that the superior banks, which were examined only once a year, would bear a part of the costs of examination of those banks which were deemed by the Comptroller to require two examinations annually.

The foregoing comments are presented in order that all relevant factors may be weighed in connection with consideration of the proposed bill. The Board of Governors is fully aware that the Comptroller of the Currency, as the primary supervisor, bears the major responsibility for the welfare of the national banking system and has available detailed information regarding its condition and operations, and presumably the unfavorable factors mentioned herein were taken into account by the Comptroller's Office before the proposed bill was submitted.

3/31/54

-5-

In commenting on the matter, Governor Robertson expressed himself as feeling strongly that a relaxation of the present examining schedule for national banks would be a mistake since, in his opinion, it would tend to lessen the supervisory knowledge now possessed by the Office of the Comptroller of the Currency. He also pointed out that if the proposed bill should become law, certain problems would arise in determining which banks were to be examined twice a year. For example, if only one examination per annum was required by law, but two examinations of a particular bank were made, the attendant publicity might be unfavorable and unfair to the institution examined since the difference between its condition and that of another bank examined only once a year might be very slight.

Governor Robertson then commented on the frequency of examinations of State member banks and pointed out that the present practice involves developments over a long period, including the practices and laws of the various States. In this connection, he brought out that if the Federal Reserve should wish to move in the direction of two examinations of State member banks each year in the interest of good supervision, the difficulties involved in such a move would be increased in the event the schedule of examinations for national banks was reduced.

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

3/31/54

-6-

Messrs. Hexter and Cherry then withdrew from the meeting and Mr. Allen, Director, Division of Personnel Administration, entered the room.

In response to the request contained in the Board's letter of January 4, 1954, and also in response to the suggestion made at the joint meeting of the Board and the Reserve Bank Presidents on March 5, 1953, that reviews be made of existing Federal Reserve district and branch territory boundaries with a view to determining whether any changes should be made, the Federal Reserve Bank of Chicago had forwarded to the Board, with a letter from President Young dated March 11, 1954, a study entitled "Decentralization Survey, Seventh Federal Reserve District, March 1954". In a subsequent letter, dated March 12, President Young stated that the survey led to these conclusions: (1) that there were no compelling reasons to change present district territories, and (2) that there were no persuasive reasons to change the number of branches in the Seventh Federal Reserve District at this time. The survey made by the Chicago Bank had been circulated to the members of the Board along with a summary memorandum prepared in the Division of Bank Operations under date of March 19, and a memorandum from Mr. Myrick, dated March 29, analyzing the survey in more detail had been sent to the members of the Board prior to this meeting.

At the request of the Board, Mr. Leonard reviewed in some detail discussions and correspondence which the Board, individual members of the Board, and members of the Board's staff had had with the management and other

3/31/54

-7-

representatives of the Federal Reserve Bank of Chicago concerning the proposed head office building expansion program and the possibility of decentralizing operations through the establishment of one or more additional branches or facilities within the Chicago Reserve District. Turning to the decentralization survey which had been made by the Reserve Bank, Mr. Leonard said that on a statistical basis he believed the data presented would justify the establishment of branches in Des Moines, Iowa, and Indianapolis, Indiana, but that there was more question with regard to the establishment of an office in Milwaukee, Wisconsin, because of that city's proximity to the head office. In support of this interpretation, Mr. Leonard said that statistics contained in the survey indicated that branches at Des Moines and Indianapolis would be among the larger Reserve Bank branches in terms of volume of operations, reserves held, and number of banks served. Mr. Leonard also mentioned arguments brought out by the Federal Reserve Bank of Chicago against the establishment of additional branches in the district, including such factors as increased operating expenses, the cost of branch buildings, the fact that the advantages of having the branches would accrue primarily to the comparatively few banks to which the branches would be most accessible, and the possibility of a one-day delay in the handling of certain checks. After appraising these and other arguments which the Chicago Bank had given against the establishment of additional branches, including the fact that establishment of such branches would relieve only partially the space problem at the head office, Mr. Leonard stated certain arguments which

3/31/54

-8-

might be given in favor of additional branches. From the policy standpoint, he felt that their establishment would carry the Reserve System closer to the communities in those States where the branches were located and that their establishment would represent a major step in decentralization of facilities for defense purposes. From the standpoint of operating procedures, Mr. Leonard said that additional branches would facilitate some Reserve Bank operations, that their establishment would ease some personnel problems existing at the head office along with certain other administrative problems resulting from the large volume of operations, and that additional branches would alleviate the space problem to some extent.

There followed an extended discussion of the advantages which might be gained by the establishment of additional branches in the Chicago Reserve District, the cities in which such branches might be located, and the reasons which might be given for establishing full-powered branches as opposed to facilities having limited functions. Comments also were made with regard to the procedure followed in the past when it had been deemed advisable to establish additional branches in various Federal Reserve districts.

With respect to the possible establishment of agencies or facilities, Mr. Vest pointed out that the law authorizes the Board of Governors to permit or require the establishment of Reserve Bank branches, entailing the setting up of boards of directors for the branches, but that there was

3/31/54

-9-

no express authority in the law for the establishment of an agency.

While the Reserve Banks have in the past established agencies or facilities having very limited functions, under their implied powers to do whatever is necessary to carry out their express purposes, Mr. Vest felt that the establishment of facilities with more than very limited powers would raise the question whether the facility was not actually a branch, which should have a board of directors and be operated as a branch in other respects. He concluded that if facilities were to be established and their functions were not confined to very limited operating areas, there would be a strong possibility of criticism from a legal standpoint.

Mr. Vest also stated that if and when a decision was made that additional branches in the Chicago Reserve District should be established, the question would arise whether interested parties should be given an opportunity to express their opinions in the matter, perhaps through publication of a notice in the Federal Register. He thought it questionable whether the Administrative Procedures Act actually required that the Board publish such notice but felt that it might be advisable to resolve any doubts in favor of affording all interested persons a chance to state their views, by publication of notice in the Federal Register or through some other medium.

With regard to the last matter mentioned by Mr. Vest, it was suggested that unless it was clearly mandatory to publish a notice in the Federal Register, an alternative procedure might be used such as a notice

3/31/54

-10-

in the Federal Reserve Bulletin or some other publication, perhaps one issued by the Federal Reserve Bank of Chicago.

Governor Evans stated that the data presented indicated to him the advisability of proceeding with the establishment of branches in Des Moines and Indianapolis, and possibly in Milwaukee, depending on further study of that situation. He felt that the Chicago Bank should be advised accordingly and at the same time given whatever authority was necessary for it to proceed with negotiations looking toward the purchase of property adjoining the head office building to permit adding to the head office premises. In this connection, Governor Evans expressed himself as opposed to any expansion of the head office quarters unless that was accompanied by a program to provide additional branches.

It appeared to be the consensus of the other members of the Board that the data available suggested the advisability of establishing branches at Des Moines and Indianapolis, and that the question of a branch or facility at Milwaukee should have further study. Question was raised, however, with regard to the approach which should be followed in bringing the Board's views to the attention of the management of the Reserve Bank.

During discussion of the foregoing point, Chairman Martin stated that he had not made up his mind completely on the branch question and was not prepared to do so at this meeting. He felt that the method used in working out the problem with the Chicago Bank was extremely important and that any requirement by the Board that the branches be established

3/31/54

-11-

might have the result of achieving decentralization of operations in the Chicago Reserve District only at the expense of centralization of control over System matters by the Board of Governors. While he thought that it would be proper for the Board to make its views known to the Reserve Bank management, he also thought that a decision on the branch question should be reached only after further discussion by the Chicago directors and, if they so desired, by the directors with the Board of Governors.

Governor Szymczak pointed out that the establishment of additional branches in the Seventh Federal Reserve District probably would lead to the presentation of similar requests by interested parties in other cities throughout the country, and there was some discussion of this point.

Following further consideration regarding the handling of the branch matter, Mr. Leonard was requested to prepare a draft of letter to the Federal Reserve Bank of Chicago for the Board's consideration at another meeting.

The discussion then turned to the request in President Young's letter of March 11 that the Federal Reserve Bank of Chicago be authorized to negotiate with the United States Fidelity and Guaranty Company of Maryland for the site immediately adjoining the Reserve Bank's head office building on the west, and with the owners for two other parcels situated to the west of the United States Fidelity and Guaranty building. Reference was made in this connection to the fact that although the Board's letter to the Reserve Bank dated January 4, 1954, referred to a program involving the purchase of the United States Fidelity and Guaranty property and either of the other two properties, the authorization in that letter covered

3/31/54

-12-

negotiations for all three properties. This would permit the taking of options without prior approval of the Board of Governors, although the exercise of such options would require the Board's approval. It was suggested that a statement to that effect be incorporated in a letter to the Reserve Bank and Mr. Leonard was requested to draft such a letter for the Board's consideration.

Messrs. Leonard, Sloan, and Myrick then withdrew from the meeting.

Reference was made to the discussion at the meeting on March 29, 1954, regarding the offer to Mr. Schweiger, Economist in the Division of Research and Statistics, of an award entitling him to undertake post-doctoral study in statistics at the University of Chicago under a grant from the Rockefeller Foundation. At that meeting it was agreed that there would be no objection to Mr. Schweiger's accepting the award but no conclusions were reached with regard to detailed arrangements, including financial arrangements, pending review of the practices of other Government agencies in similar cases.

At this meeting Mr. Allen reported information which he had secured from certain other Government agencies, from which it appeared that those agencies provided training opportunities for selected employees regularly, using appropriated funds available for the purpose. He said that usually the individual selected was carried on the agency's pay roll at a reduced rate of pay representing his regular rate of pay less the amount received by the employee under his fellowship or grant. With reference to

3/31/54

-13-

Mr. Schweiger's case, Mr. Allen stated that one reason which might be given for retaining him on the Board's pay roll during the period of his study at the University of Chicago was the fact that the Division of Research and Statistics might want to avail itself of Mr. Schweiger's services for temporary periods in connection with the Surveys of Consumer Finances.

Regarding a suggestion which had been made that Mr. Schweiger might do some work at the Federal Reserve Bank of Chicago while studying under the Rockefeller Foundation grant, Mr. Allen said that such a procedure might affect the taxability of the stipend received from the Rockefeller Foundation and that, in addition, it appeared that Mr. Schweiger's post-doctoral study would be under the direction of a supervisory committee so that he probably would not have time to undertake work at the Chicago Reserve Bank.

Mr. Allen also stated that according to information which he had received, it was sometimes, but not always, the practice of other Government agencies to require a person assigned to special training to sign an agreement that he would return to the agency for a stipulated period upon the completion of his training.

Following a further discussion of what arrangements might be most appropriate in Mr. Schweiger's case, during which reference was made to the effect of possible alternative arrangements upon his rights under the System group life insurance policy and the Civil Service Retirement System,

3/31/54

-14-

it was suggested that Mr. Schweiger be allowed to accept and retain the \$4,000 stipend offered by the Rockefeller Foundation, and that he be kept on a pay status with the Board during the period of his study, with compensation at a rate representing the difference between his current salary and the \$4,000 stipend.

At the conclusion of the discussion, it was agreed unanimously that the suggested arrangement should be followed unless a further study of the matter to be made by Messrs. Vest and Allen developed reasons which would indicate the preferability of some other arrangement.

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 March 30, 1954, were approved unanimously.

Memorandum dated March 25, 1954, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Marian B. Treakle, Minutes Clerk, Office of the Secretary, be accepted effective March 26, 1954.

Approved unanimously.

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

This will acknowledge your letter of March 19, 1954, addressed to Governor Szymczak, in which you state that, although your Bank's plans for foreign travel during the year 1954 have not yet been fully developed, the directors have approved:

3/31/54

-15-

(1) A visit to the Bank of Canada by Vice President Rouse for one or two weeks and another by Assistant Vice President Roosa for about two weeks, commencing at or near the end of April.

(2) Trips to Mexico by Assistant General Counsel Clarke, Assistant Vice President Sanford, and Mr. Garvy, Senior Economist, to lecture at the Center for Latin American Monetary Studies in Mexico City during the period May - August, 1954. In this connection, you state that the directors have approved leaves of absence with pay commencing the latter part of May for Mr. Clarke, early in July for Mr. Sanford, and late in July for Mr. Garvy, each for a period of two weeks.

These plans have been noted by the Board of Governors without objection, along with your statement that either Mr. Sanford or Mr. Clarke, upon the completion of his lectures at the Center for Latin American Monetary Studies, may pay a brief visit to the Banco Central De Honduras. The Board will be pleased to have advice of your other plans for foreign travel during 1954 when such plans have been developed.

Approved unanimously.

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

In view of the circumstances described in your letter of January 15, 1954, the Board of Governors approves the payment of salaries to the part-time employees listed in Schedule A, enclosed with your letter, at rates that are in excess of the maximums established for the positions they occupy. The Board of Governors also approves the payment of salaries to part-time employees which may in the future exceed salary grade maximums for the same reasons described in your letter.

Approved unanimously.

Letter to the Board of Directors, Norfolk County Trust Company, Brookline, Massachusetts, reading as follows:

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

3/31/54

-16-

of the Federal Reserve System approves the establishment of a branch at 376 Granite Avenue, East Milton, Massachusetts, by the Norfolk County Trust Company, provided the branch is established by June 14, 1954.

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

Letter to Mr. E. S. Dabney, President, Security Trust Company,
Lexington, Kentucky, reading as follows:

Your letter of February 17, 1954 raises a question as to the basis for the rebate of unearned discount in case of prepayment of borrowings from a Federal Reserve Bank when the current discount rate is less than the rate at which the indebtedness was incurred. This is a question of long standing.

You refer specifically to a note for \$400,000 dated February 10, 1954, due 30 days from date, which your bank discounted with the Cincinnati Branch of the Federal Reserve Bank of Cleveland when the discount rate was 2 per cent. On February 15 the discount rate was reduced to 1-3/4 per cent and on that date the note was prepaid and a note for like amount discounted at the new rate of 1-3/4 per cent. The rebate of unearned discount on the prepaid note was computed at the current rate of 1-3/4 per cent and amounted to \$479.45, whereas if it had been computed at the original discount rate of 2 per cent, the rebate would have been \$68.50 greater.

You have been given to understand that the procedure as to rebates is in accordance with a regulation of the Board of Governors. As President Fulton advised you in his letter of February 26, the rebate of unearned discount at the lower of the original or current rate of discount is not governed by regulation of the Board of Governors. It is, however, consistent with a ruling made by the Board in 1915, when borrowing from a Reserve Bank was limited to the rediscounting of paper and differentials in the rates for 30, 60, and 90-day maturities were frequent. At that time it was held that the rebate of interest for the unexpired term of a note paid before maturity should be made not at the original rate applicable to a longer maturity, but at the rate prevailing for paper running the same length of time as the unexpired term of the paper being prepaid.

In 1923 the Conference of Governors of the Federal Reserve Banks (now known as the Conference of Presidents of the Federal

3/31/54

-17-

Reserve Banks) voted that rebates of unearned discount made by the Federal Reserve Banks should be at the lower of the original or the prevailing rate of discount and this position was reaffirmed when the policy was reconsidered at a Governors' Conference in 1930.

This practice, which has been followed by the Reserve Banks for so many years, is set forth in Paragraph 29 of Operating Letter No. 5 of the Federal Reserve Bank of Cleveland relating to discount procedures.

When the discount rate is increased at a Federal Reserve Bank no additional charge is made on the outstanding advances or rediscounts; likewise, when the discount rate is reduced no reduction is made in the rate on outstanding credits. The rebate of unearned discount at the original rate in circumstances such as described in your letter and when a renewal note is discounted at the new and lower discount rate would be equivalent to a reduction in the rate on the outstanding credit.

As you may know, the System is engaged in a comprehensive study of the System's discount and discount rate mechanism and the question which you raise regarding rebates of unearned discount will be considered in connection with the studies relating to discount rates.

The Board appreciates your calling this matter to its attention and the expression of your views.

Returned herewith are the cancelled note of your bank for \$400,000 and the advice of debit dated February 15, 1954, enclosed with your letter of February 17.

Approved unanimously, with a
copy to Mr. Fulton, President,
Federal Reserve Bank of Cleveland.

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

This refers to your letter of March 23, 1954 with regard to deficient reserve penalties incurred by the Farmers Bank and Trust Company, Knox, Indiana.

It is noted that a penalty of \$152.44 was assessed against the subject bank for a deficiency in reserves during the period ended February 28, 1954, but a routine audit of your Member Banks Division later showed that a

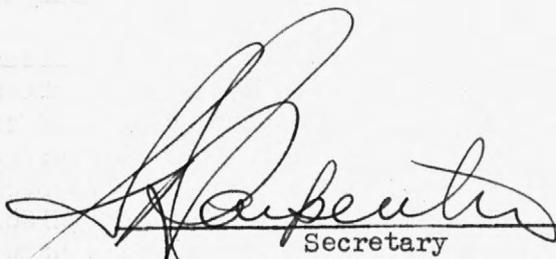
3/31/54

-18-

penalty of \$158.14 should have been assessed; and that, since the difference is only \$5.70 and you have been working with the bank in an effort to help it maintain adequate reserves, you believe that billing the bank for the additional \$5.70, arising exclusively from the Federal Reserve Bank's error in computation, would serve no good purpose.

The Board concurs in your view and you may handle the matter in either of the two ways mentioned in the last paragraph of your letter; in either case, the record will show the pertinent circumstances.

Approved unanimously.


Secretary