

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 1, 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

Pursuant to the understanding at the meeting on March 29, 1954, Mr. Irons, President of the Federal Reserve Bank of Dallas, also was present to discuss with the Board salaries which had been proposed for certain officers of the Dallas Bank, effective April 1, 1954.

The Chairman later informed the Secretary's Office that after a discussion with President Irons, the Board went into executive session, during which it approved a letter to Mr. Irons in the following form, Governor Evans dissenting with respect to payment of the salary proposed for Mr. Rice as Vice President in charge of research since he did not favor the designation of Mr. Rice to serve in that capacity:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Dallas and its Branches for the period April 1, 1954, through December 31, 1954, at the rates indicated, which are the rates fixed by the Board of Directors as indicated in your letter of March 11, 1954.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
J. Lee Cook	Vice President & Cashier	\$14,000
Harry A. Shuford	Vice President & General Counsel	14,000
Morgan H. Rice	Vice President & Secretary of the Board	13,000

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
T. W. Plant	Vice President	\$11,700
Howard Carrithers	Assistant Vice President	10,200
W. D. Waller	Assistant Cashier	9,800
Herman W. Kilman	Assistant Cashier	9,800
N. B. Harwell	Chief Examiner	9,600
E. H. Berg	Assistant Cashier	9,300
James A. Parker	Director of Personnel	9,300
Philip E. Coldwell	Director of Research	9,300
George F. Rudy	Assistant Counsel & Assistant Secretary of the Board	7,500
<u>HOUSTON BRANCH</u>		
H. K. Davis	Cashier	10,000
B. J. Troy	Assistant Cashier	8,600
<u>SAN ANTONIO BRANCH</u>		
Alfred E. Mundt	Cashier	9,600
F. C. Magee	Assistant Cashier	7,800
<u>EL PASO BRANCH</u>		
C. M. Rowland	Vice President	11,700
A. E. Russell	Cashier	9,300
T. C. Arnold	Assistant Cashier	7,500

The Board of Governors also approves the designation of Mr. Morgan H. Rice, Vice President and Secretary of the Board, as the officer in charge of the Research Department.

Inasmuch as the Board of Governors in its letter of December 18, 1953, indicated approval of salaries for Messrs. Austin, Pondrom, Murff, Holloway, and Eagle for the period ending December 31, 1954, at the rates reported in your letter of March 11, further action in this connection by the Board of Governors is not required at this time.

The Chairman also advised the Secretary's Office that during the executive session the following additional actions were taken by the Board:

Unanimous approval was given to a request from Mr. Masters, Assistant Director, Division of Examinations, for authority to travel to Richmond, Virginia, on April 15 and 16, 1954, to attend a joint meeting of Federal and State supervisory authorities with

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members of the Trust Committee of the Virginia Bankers Association on April 15 and to attend a one-day meeting of Virginia trust men on April 16.

Unanimous approval was given to a request from Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics, for authority to travel to New York, New York, on April 1 and 2, 1954, to attend a luncheon meeting of business economists.

Unanimous approval was given to the following letter to Mr. Fulton, President of the Federal Reserve Bank of Cleveland, which had been circulated to the members of the Board prior to consideration at this meeting:

This refers to your letter of March 15, 1954, reviewing the cost of the program for air conditioning the Cincinnati Branch building.

The Board of Governors authorizes the expenditure of approximately \$850,000 for air conditioning the Cincinnati Branch building, which is an increase of \$151,000 in the amounts authorized in the Board's letters of July 10, 1952 and January 2, 1953.

It is assumed that, when the installation has been completed and the expenditures to be capitalized are charged to the asset account, a report on Form F. R. 611 will be submitted showing the cost to date of the Cincinnati building and, on the reverse of the form, the portion of the cost allocable to "building proper" for purposes of Paragraph 9 of Section 10 of the Federal Reserve Act.

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 31, 1954, were approved unanimously.

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Memorandum dated March 31, 1954, from Mr. Vest, General Counsel, recommending that the resignation of Erma L. Hufford, Stenographer in the Legal Division, be accepted effective March 31, 1954.

Approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in your letter of March 25, 1954, the Board approves the designation of Thomas T. Huband and Carlyle L. Wiltshire, Jr., as special assistant examiners for the Federal Reserve Bank of Richmond, for the specific purpose of rendering assistance in the examinations of State member banks only.

Approved unanimously.

Letter to the Board of Directors, Harvard Trust Company, Cambridge, Massachusetts, 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 and operation of a branch at the junction of Alewife Brook Parkway and Rindge Avenue, West Cambridge, Massachusetts, by Harvard Trust Company, Cambridge, Massachusetts, provided the branch is established within six months from the date of this letter.

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

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In view of your favorable recommendation and the information contained in your letter of March 29, 1954, the

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Board of Governors extends until July 1, 1954, the time within which Mountain Trust Bank, Roanoke, Virginia, may establish an in-town branch at the corner of Melrose Avenue and 22nd Street, N. W. under the authority granted in the Board's letter of October 5, 1953.

Approved unanimously.

Letter to The First National Bank of Lincolnton, Lincolnton, North Carolina, reading as follows:

The Board of Governors of the Federal Reserve System had given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee under agreement dated January 12, 1950, between Lincoln Finance Company, Inc., and The First National Bank of Lincolnton, the exercise of such authority to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A certificate covering such authorization, as well as the specific fiduciary power heretofore granted, is enclosed.

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

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the recommendation contained in your letter of March 26, 1954, the Board of Governors extends to December 31, 1954, the time within which the Louisiana Bank & Trust Company, New Orleans, Louisiana, may establish a branch at or near the intersection of Chef Menteur Highway and France Road, in the Gentilly Section of the city of New Orleans, under the approval given by the Board in its letter of October 29, 1953.

Approved unanimously.

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Letter to Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

This will acknowledge receipt of your letter of March 11, 1954, and the accompanying exhibit in respect to the violations of Section 22(g) of the Federal Reserve Act and Regulation O of the Board of Governors by Mr. T. H. Van Sant, Cashier of The Callaway Bank, Fulton, Missouri. These violations have occurred repeatedly during protracted periods in every year since the bank became a member of the Federal Reserve System in 1937, and each examination since that time has reported their occurrence. It appears that the board of directors of the institution is unwilling or unable to bring about a termination of the violative practices.

It would seem to be appropriate, in accordance with your recommendation, for the Federal Reserve Agent to issue a warning under Section 30 of the Banking Act of 1933 to Cashier Van Sant of the above-mentioned bank. There is enclosed a copy of a suggested form of letter for the signature of Mr. M. Moss Alexander, Federal Reserve Agent, if in his opinion Mr. Van Sant has violated Section 22(g) and Regulation O and has engaged in the unsafe and unsound practice described therein. You will note that the letter should be sent by registered mail in an envelope marked "Personal".

We also think it desirable that each member of the board of directors of The Callaway Bank receive a copy of Mr. Alexander's letter. It is suggested that these letters also be marked "Personal" and forwarded by registered mail.

It is suggested that the bank be examined after lapse of a reasonable time to determine whether Mr. Van Sant is complying with the law or whether further action will then be required to bring about such compliance.

Approved unanimously.

Letter to Mr. Fulton, President, Federal Reserve Bank of Cleveland, reading as follows:

This is in further reference to your letter of February 26, 1954, which presented an inquiry under Regulation Q concerning a "time certificate of deposit" with alternate maturities.

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Briefly, the sample certificate set out in your letter provides for payment at a stated maturity 3 years after date of issue with interest at a rate of 2-1/2 per cent; but the depositor may elect earlier payment, after 90 days' written notice, during the first 15 months from date of issue with interest at a rate of 1 per cent, during the succeeding 12 months with interest at a rate of 1-1/2 per cent, or during the next 9 months with interest at a rate of 2 per cent. That such a certificate complies with the regulation appears clearly from the interpretation published at 1953 Federal Reserve Bulletin 721-722.

The question is whether a depositor, for example, who holds such a certificate in the amount of \$1,500, gives the necessary 90 days' written notice at the end of the 18th month from date of issue, but withdraws only \$500 at the end of the 21st month with 1-1/2 per cent interest from date of issue, might lawfully be paid interest from such date on the deposit balance of \$1,000 at the rate of 2 per cent or 2-1/2 per cent, depending on whether such balance is left with the bank until, say, the 33rd month or for the full 3 years. While not entirely clear, it would appear that at the time of expiration of the 90 days' notice and of withdrawal of the \$500, a new certificate with the same terms, rate, date, and maturity as the original would be issued with respect to the unwithdrawn deposit balance of \$1,000.

A very similar question arose recently in connection with a "time deposit, open account" with alternate maturities and terms comparable to those of the certificate of deposit just described. In disposing of the matter by its interpretation published at 1953 Federal Reserve Bulletin 1050, the Board said that if the depositor, prior to the expiration of the stated maturity, should withdraw only part of the deposit following the requisite notice period for the exercise of his privilege of earlier withdrawal, it would be permissible for the balance of the deposit remaining with the bank to bear, as from the original date of the deposit, the higher rate of interest specified for the longer, stated maturity.

As you seem to suggest, the situation described in your letter would not appear to be materially different under the regulation than that covered by the 1953 interpretation just discussed. The certificate which would be given to the depositor at the time of expiration of the 90 days' notice and of withdrawal of the \$500, would appear to be merely a reissuance of the original certificate in form and content identical

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with the original, except for the reduced face amount thereof. The Board is of the view that the principle of the interpretation at 1953 Federal Reserve Bulletin 1050 should be regarded as equally applicable to the situation presented by you and that, accordingly, such situation would not involve a payment of interest in excess of the limitations prescribed under Regulation Q. However, the records of the bank should clearly reflect the facts pertaining to such a transaction; and, for this purpose, the new certificate should bear a notation on its face or reverse to the effect that it is being issued as a replacement for the original certificate because of a partial payment of the deposit represented thereby, stating the number and amount of the original certificate.

Approved unanimously, with the understanding that the substance of the letter would be transmitted to the Presidents of all Federal Reserve Banks for their information.

Letters to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading 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 24 of the Federal Reserve Act", which has been proposed by the Treasury Department.

Section 24 of the Federal Reserve Act (12 U.S.C. 371) prescribes requirements and limitations with respect to individual loans by national banks upon the security of real estate, and also prescribes limitations upon the aggregate amount of such loans by a national bank. The last paragraph of section 24 exempts from the restrictions and limitations of that section loans "to established... businesses" in which the Reconstruction Finance Corporation participates. The present proposal is that this exemption be amended to include loans "in which...the Small Business Administration cooperates or purchases a participation under the provisions....of the Small Business Act of 1953..." That Act empowers the Small Business Administration (1) to make loans to small business, for various specified purposes, "either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis", and (2) "to make such loans as the Administration may determine to be necessary or appropriate because of floods or other catastrophes" (Small Business Act, section 207; 15 U.S.C. 636).



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These functions are similar, in many respects, to functions formerly performed by the Reconstruction Finance Corporation, and loans to established businesses in which the Reconstruction Finance Corporation participated have been exempted from the restrictions and limitations of section 24 for many years. Consequently, the proposal, broadly speaking, simply continues an established Congressional policy with regard to the status under section 24 of small-business loans in which Reconstruction Finance Corporation participated.

It is to be noted that the loan-participation powers of the Small Business Administration are to some extent more limited, both in nature and in maximum aggregate dollar amount, than were the comparable powers of the Reconstruction Finance Corporation. It is also to be noted that the present proposal was submitted by the Treasury Department, presumably at the instance or with the agreement of the Comptroller of the Currency, who is the primary supervisor of the national banking system.

The Board of Governors sees no objection to enactment of the proposed legislation.

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This refers to your letter of March 23, 1954, requesting the Board's views with respect to a draft of a bill "To amend sections 23A and 24A of the Federal Reserve Act", which has been presented by the Treasury Department.

Section 23A of the Federal Reserve Act limits the amount which a member bank may loan to an affiliate or invest in the stock or obligations of an affiliate to 10 per cent of the member bank's capital stock and surplus. The section at present contains an exception with respect to affiliates engaged in holding the premises of a member bank, but this exception applies only to such an affiliate which was engaged in holding bank premises on June 16, 1934. The proposed bill would eliminate the requirement that such an affiliate must have been engaged in holding bank premises on that date and would provide instead that the exception shall apply to any affiliate engaged "solely" in holding bank premises.

Section 24A of the Federal Reserve Act recognizes the right of member banks to invest in bank premises and in the

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stock or obligations of companies holding bank premises, provided that any such investment in excess of a member bank's capital stock must be approved by the Comptroller of the Currency in the case of a national bank or by the Board of Governors in the case of a State member bank. In view of this fact, the Board believes that the amount of a member bank's investment in the stock or obligations of an affiliate engaged solely in holding premises of the bank should not be restricted by the limitations of section 23A and that, therefore, the proposed amendment to that section is desirable.

The second section of the proposed bill would amend section 24A of the Federal Reserve Act in order to make it clear that a member bank must obtain the consent of the Comptroller of the Currency or the Board of Governors in any case in which the amount of any indebtedness incurred by an affiliate of the bank engaged in holding bank premises, together with the amount of the member bank's direct investment in bank premises, exceeds the amount of the bank's capital stock. It appears that this amendment is prompted by recognition of the fact that the proposed amendment to section 23A, if adopted, would make it easier than at present for a member bank to set up a controlled subsidiary corporation which, with funds borrowed from other sources, could construct and hold bank premises costing far in excess of the amount of the member bank's capital stock. Any such arrangement would appear to be inconsistent with the spirit and intent of the provisions of section 24A limiting investments in bank premises by member banks. The proposed amendment to that section would prevent the making of such arrangements without the consent of the Comptroller of the Currency or the Board of Governors; and, accordingly, the Board believes that such an amendment would be desirable.

For the reasons indicated, the Board would favor the enactment of the proposed bill.

Approved unanimously.

Letter for the signature of the Chairman 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 26, 1954, transmitting a proposal made by the Committee on Retirement Policy for Federal Personnel with respect to "The Uniformed Services Retirement System."

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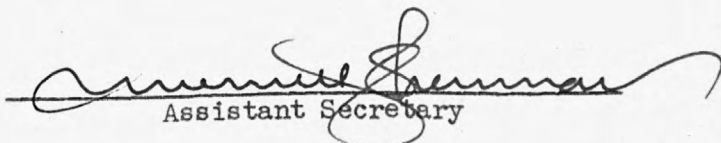
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While, of course, we are not in a position to determine the adequacy or inadequacy of the benefits proposed nor to express an opinion on the desirability of extending social security coverage to members of the Armed Forces, it would seem that a simplification of the benefits paid to military personnel and their survivors and a savings in the total cost of the program are objectives which are desirable.

Approved unanimously.

Memorandum dated March 26, 1954, from Mr. Chase, Assistant General Counsel, recommending, for reasons stated, that he be authorized to advise an attorney in the Department of Justice, who raised the question with him, that the Board did not have any views as to what further action should be taken in the case of National Stores (partnership), Salt Lake City, Utah, a registrant under Regulation W, Consumer Credit. (Pursuant to action taken by the Board on February 20, 1952, this matter was referred to the Department of Justice for the institution of such criminal proceedings as that Department might deem appropriate.)

Approved unanimously.

  
Assistant Secretary