

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 2, 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. Sherman, Assistant Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thomas, Economic Adviser to the Board

Mr. Leonard, Director, Division of Bank Operations

Mr. Vest, General Counsel

Mr. Young, Director, Division of Research and Statistics

Mr. Myrick, Assistant Director, Division of Bank Operations

Mr. Hackley, Assistant General Counsel

Governor Mills, Chairman of the System Committee on the Discount and Discount Rate Mechanism which was established pursuant to action of the Board on June 9, 1953, referred to the report on the discount mechanism which had been prepared under the direction of the Committee, commenting that the report met with the approval of the other members of the Committee (Mr. Coleman, Chairman of the Federal Reserve Bank of Chicago, and Mr. Williams, President of the Federal Reserve Bank of Philadelphia) and that copies had been sent on March 29 to each member of the Board and to the Chairman and President of each Federal Reserve Bank with a covering letter which stated that a suggested procedure for consideration and disposition of the report would be forwarded shortly. Governor Mills suggested that

4/2/54

-2-

the Board members review the report carefully and that a second letter be sent to each Chairman and President requesting that as a first step each Reserve Bank submit comments to the Chairman of the Committee by May 3, with the thought that the various comments and suggestions could then be collated and the material sent to the members of the Board and to the Chairmen and Presidents by the latter part of May, after which consideration could be given to what further steps should be taken. Governor Mills also suggested that if this procedure were followed, the Board might wish to set aside time for discussion of the material with the Reserve Bank Presidents at the time of the meeting of the Presidents' Conference in June.

The procedure suggested by Governor Mills was approved unanimously. In this connection, unanimous approval was given to a letter for the signature of the Chairman to the Chairman and President of each Federal Reserve Bank (except Chairman Coleman and President Williams) reading as follows, with the understanding that copies of the letter would be sent to Messrs. Coleman and Williams for their information:

On March 29, there was sent to each Chairman and each President a copy of the report on the discount mechanism which had been prepared under the direction of the System Committee on the Discount and Discount Rate Mechanism, the members of which are Chairman Coleman of the Federal Reserve Bank of Chicago, President Williams of the Federal Reserve Bank of Philadelphia, and Governor Mills, who has served as Chairman of the committee. That letter stated that we shortly would forward to you a suggested procedure for the consideration and disposition of the report.

4/2/54

-3-

This report points to a basic revision of the Board's Regulation A, Discounts For and Advances To Member Banks By Federal Reserve Banks. If such a revision were made, it would seem clear that it should be undertaken only at a time, such as the present, when the level of member bank discounts was relatively low.

The Board has discussed various procedures for furthering System consideration of the report on the discount mechanism and suggests that as a first step each Federal Reserve Bank review and comment on the committee's suggestions. If such comments by the individual Reserve Banks could be completed and forwarded to the Chairman of the committee by May 3, he could then collate the various comments and suggestions and send copies of the material to the members of the Board of Governors and the Chairmen and Presidents of the Federal Reserve Banks. It would be hoped that the collated material could be sent out by the latter part of May, after which consideration could be given to what further steps should be taken in getting System consideration of the report.

If you believe this suggested procedure offers a satisfactory way of handling the report at this stage, I shall appreciate it if the comments of your Bank can be sent to reach Governor Mills by May 3.

Chairman Martin read, as a matter of information, a copy of a letter which the Bureau of the Budget sent to the House Committee on Government Operations on March 31, 1954, expressing its views on Bill H.R. 7602, which would direct the Comptroller General to make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and their branches for the year ended December 31, 1953. The letter, a copy of which had been sent to Chairman Martin with a covering letter of the same date signed by Mr. Roger W. Jones, Assistant Director for Legislative Reference, took the position that the proposed legislation was unnecessary and undesirable. It

4/2/54

-4-

recommended, therefore, against enactment of H.R. 7602.

Chairman Martin also stated that he had received a telephone call from Mr. Erickson, President of the Federal Reserve Bank of Boston, who reported, for the Board's information, that the board of directors of the Boston Bank had authorized him to make a one-month trip to Europe beginning May 12, 1954. While President Erickson indicated that he would take advantage of the opportunity to visit certain foreign central banks and commercial banks, it was understood that the trip would be primarily of a personal nature.

Pursuant to the understanding at the meeting on March 31, 1954, Mr. Leonard had prepared drafts of two letters to Mr. Young, President of the Federal Reserve Bank of Chicago, one dealing with the question of decentralization of operations in the Seventh Federal Reserve District through the establishment of additional Reserve Bank branches and the other dealing with authorization to the Federal Reserve Bank of Chicago to negotiate with the owners for the purchase of certain properties in the same block as the Bank's head office building to provide for expansion of facilities.

Governor Evans stated that following the discussion at the meeting on March 31, he had a conversation with President Young, who was in the Board's offices that day, at which time he told Mr. Young that the Board appreciated the decentralization survey which the Reserve Bank had

4/2/54

-5-

made and considered it a good report, that the Board agreed with the advisability of the Reserve Bank's proceeding with negotiations for the adjoining properties in Chicago, including, if deemed advisable, the taking of options, but that in addition the Board was inclined to favor the establishment of branches in Des Moines, Iowa, and Indianapolis, Indiana, and felt that further study should be given to the question of establishing a branch in Milwaukee, Wisconsin.

Governor Evans then stated that the Chicago building program had been up for consideration for about two years, that the question whether the Bank should remain at its present location or whether a building should be provided at another location was settled by determining to remain at the present location and add to the building, and that an undecided question was whether additional branches should be established in the district. He said that this question had been discussed at various times with representatives of the Chicago Reserve Bank and that he felt the time had arrived for the Board to make a decision. It was Governor Evans' feeling that additional branches should be established, and he suggested that the following letter, rather than the draft prepared by Mr. Leonard regarding the possible establishment of branches, be sent to the Chicago Bank:

The report of the decentralization survey, forwarded with your letter of March 11, has been carefully reviewed by the Board. You and your staff are to be complimented on the information you forwarded in response to our request.

4/2/54

-6-

We agree with you that the congestion at your Bank needs relief and we want to be as helpful as possible in helping you to work out a program toward this end. Therefore, in a previous letter we suggested that you ascertain the price of the adjacent property.

It seems to us that the number of banks and the volume of business in your territory requires the establishment of new branches at Des Moines, Iowa, Indianapolis, Indiana, and possibly at Milwaukee, Wisconsin. The establishment of these branches would materially reduce the load on the head office and would be consistent with the general governmental policy of scattering facilities subject to damage in the event of an enemy attack. If these branches were established, it would represent a further step in the decentralization of the System. It would bring the branches closer to the member banks they serve and through their directors and officers would bring the System and its operations closer to the general public, which is not too familiar with the Federal Reserve System. If branches were established at Des Moines and Indianapolis, they would rank among the larger branches in the System and would be larger than more than half of the present branches.

After considering all phases of the question, the Board favors the establishment of branches at Des Moines and Indianapolis as soon as practicable, leaving the question of a branch at Milwaukee for further study. This is an important question and we would appreciate your Board reviewing the entire matter again. If a meeting with our Board would be helpful to your directors, it would be a pleasure to meet with them.

Governor Vardaman then suggested certain amendments to the draft of letter regarding the establishment of branches which had been submitted by Mr. Leonard, and Governor Robertson read a draft he had prepared which would treat in one letter the matter of additional branches and the acquisition of additional property for expansion of the head office premises.

During a discussion which followed, Governors Szymczak and Mills stated that they would favor the two letters drafted by Mr. Leonard and

4/2/54

-7-

that they would also be agreeable to amending the draft concerning the establishment of branches to incorporate most of the suggestions made by Governor Vardaman.

Chairman Martin said that he had not yet reached a definite conclusion on the branch question, stating that while he was inclined to favor the establishment of additional branches in the Chicago District, he was not prepared to reach such a decision at this meeting or on the basis of the information now available to the Board. In Chairman Martin's opinion, the manner in which the problem was handled was most important and a good deal more groundwork was needed before the Board reached a decision that branches should be established despite a contrary recommendation by the Chicago Bank. He reiterated the view he had expressed at the meeting on March 31, that centralization of control in a matter such as this was inconsistent with the general approach to decentralization, where feasible, of responsibility throughout the Federal Reserve System. As to the proposed letters to the Chicago Bank, Chairman Martin said that he would not object to the draft regarding additional branches as submitted by Mr. Leonard, or to a letter incorporating the changes suggested by Governor Vardaman, or to one similar to that proposed by Governor Robertson. However, he would not approve a letter such as that proposed by Governor Evans which implied that the Board had made a decision that additional branches should be established. Chairman Martin's opposition to that type of letter was based on his strong feeling that further discussion of the whole problem with the directors of the Chicago Bank was required before a decision was reached, and that the matter should not be closed to such further discussion by a

4/2/54

-8-

decision at this meeting. Chairman Martin also expressed the view that with the prospect of a continuing expansion of business activity in the Chicago area, the present head office quarters would not be adequate even if additional branches were established. For that reason, he felt that the Chicago Bank should proceed with negotiations for the acquisition of properties which would permit an enlargement of the head office building.

Governor Evans stated that he did not agree with Chairman Martin's position because the question of the establishment of branches had been gone into very thoroughly and all of the information needed to make a decision was already at hand. He felt that the Board should follow the position set out in his proposed letter, indicating quite clearly that it favored establishment of the branches but extending to the Chicago board the opportunity to have a full discussion of the question with the Board of Governors if they so desired, as set out in the last paragraph of his suggested letter. However, he would not interpose any further objection to the suggested substitute letter but he felt it did not accelerate a sound and prompt solution of the problem at the Chicago Bank.

After further discussion, upon motion by Governor Mills, unanimous approval was given to letters to President Young in the following form, with the understanding that copies would be sent to Chairman Coleman and with the further understanding that the views of the Board, as stated in the letters, would be transmitted by telephone to Chairman Coleman and President Young today:

The report of the decentralization survey forwarded with your letter of March 11 has been reviewed. The Board appreciates the study and the effort that have been devoted to the survey. It is understood that the report, submitted in response to the request contained in the Board's letter of

4/2/54

-9-

January 4, 1954, also serves as the answer to Chairman Martin's suggestion at the Joint Meeting of the Presidents and the Board on March 5, 1953, that reviews be made of district and branch boundaries with a view to determining whether any changes should be made.

Your covering letter accompanying this report on decentralization states that it is apparent that the matter of establishing additional branches in the Seventh District should have further consideration; but your letter of March 12 states that, in your opinion, the survey leads to the conclusion that there are no persuasive reasons to establish new branches in the Seventh District at this time. The Board is not in full agreement with this conclusion.

Your report on decentralization indicates that if branches were to be established at Des Moines and Indianapolis, they would rank among the larger branches in the System. On the basis of the statistical data and on broad policy considerations, the Board is inclined to favor the establishment of branches at Des Moines and Indianapolis, and possibly at Milwaukee. Therefore, the Board requests that your directors give, at an early date, further consideration to the question of the establishment of such branches. Should your directors so desire, the Board of Governors will be glad to discuss the matter personally with them.

Your letter of March 11 requests that the Bank be authorized to negotiate with the owners for the purchase of the property adjoining the Reserve Bank on the west and of the two other properties in the block.

The Board's letter of January 4, 1954 authorized negotiation for the properties and that authorization is still in effect. The letter referred to a program involving the purchase of the adjoining property and either of the other two properties. The authorization to explore the possibilities, however, covers negotiations for all three properties.

In accordance with the procedures outlined in the Board's letter of December 1, 1953 (S-1518), the authorization contained in the Board's letter of January 4 permits the taking of options at reasonable figures on the properties under consideration without prior approval of the Board. Exercise of such options, however, does require such prior approval in accordance with the established procedure of many years under which the purchase of real estate by a Reserve Bank is subject to approval of the Board of Governors.

4/2/54

-10-

The Board will be glad to consider any specific proposals which result from your negotiations.

As indicated by Governor Robertson at the meeting on March 16, 1954, a draft of letter to Mr. Harry J. Harding, President of the Independent Bankers Association, Twelfth Federal Reserve District, Pleasanton, California, had been prepared in response to Mr. Harding's letter of March 3, and his follow-up letter of March 23, requesting certain data regarding bank holding companies. The draft of letter, copies of which had been sent to the members of the Board prior to this meeting, read as follows:

This is in reply to your letters of March 3, and March 23, 1954, requesting certain data regarding bank holding companies.

There are at this time 77 cases in which there are in force determinations made by the Board of Governors pursuant to Section 301 of the Banking Act of 1935, which provides for the exemptions, to which you refer, from the existing holding company affiliate statutes except the provisions of Section 23A of the Federal Reserve Act regarding financial relations between member banks and their holding company affiliates. In five of these 77 cases there are two holding company affiliates, and another case includes three organizations which are all holding company affiliates of the same bank. Accordingly, the 77 cases include 84 holding company affiliates. Twenty-nine of these holding company affiliates are themselves banks.

You inquire whether the exemptions were all for the same reason or for several reasons. As you know, the law exempts "any organization which is determined by the Board . . . not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies." In making such determinations, the Board's decisions have, of course, been based upon all of the facts and circumstances of each particular case, and the detailed reasons for the determinations are as diverse as the detailed facts of the respective cases. Without attempting to summarize all of the detailed reasons which appear in the various cases, some of the cases involve

4/2/54

-11-

banking operations which are purely incidental to the non-banking operations which constitute the principal business of the controlling organization. There are cases also where the stocks of the banks are held for the purpose of investment rather than control, and cases where the bank stocks are owned by the holding company affiliates solely in a fiduciary capacity. Moreover, some cases do not involve group banking such as the law apparently was intended to regulate.

Incidentally, it may be of interest to you to know that, in each determination made pursuant to Section 301 of the Banking Act of 1935, the Board has reserved the right to revoke the exemption in the event of changed facts in the particular case.

With respect to the extent of the banking operations of the holding company affiliates in relation to their over-all activities, there is likewise a wide range of differences among the various cases. As mentioned above, 29 of the holding company affiliates are themselves banks. At the other extreme would be the cases mentioned above wherein the banking operations are purely incidental to the principal activities. In some cases it is difficult to find a basis for comparing the extent of the banking operations with the principal activities of the holding companies, such as the holding company affiliates which are labor unions, or church or charitable organizations.

Of the 77 cases mentioned above, there is one controlled bank in 69 cases, and there are two controlled banks in six cases and three controlled banks in two cases. In each of the eight cases in which there is more than one controlled bank, the respective controlled banks are in the same State.

The following tabulation shows the number and deposits of the controlled banks included in the 77 cases, classified according to type of bank:

Type of controlled bank	Number	Aggregate deposits
		December 31, 1952 ^{1/} (in thousands)
National	48	\$1,064,067
State member	33 ^{2/}	731,943
Nonmember insured	4	52,595
Nonmember uninsured	2 ^{3/}	-
<u>Totals</u>	<u>87</u>	<u>\$1,848,605</u>

^{1/}Deposits as of a later date included for 3 banks which began operations subsequent to December 31, 1952.

^{2/}Includes 3 trust companies having no deposits.

^{3/}Trust companies having no deposits.

4/2/54

-12-

Although you requested information as to the total assets of the banks in each of the above groups, we have given the figures for deposits because it seems to us that they are more fully informative as to the types of controlled institutions, there being included, as indicated above, several trust companies which do not have deposits. These figures regarding controlled banks, of course, do not include the number or deposits of the 29 banks which are holding company affiliates controlling other banks. Some of these 29 banks are large institutions which control other banks purely in a fiduciary capacity or control trust companies whose business, being confined chiefly or entirely to trust business, supplements the activities of the controlling commercial banks.

Throughout the information and data given above regarding controlled banks, the meaning of control is that which is indicated in the existing statutory definition of the term "holding company affiliate." Unless there is an existing or prospective holding company affiliate relationship within the meaning of that definition, no determination would be made by the Board.

Regarding the matter of developing a list of companies holding or controlling 15 per cent or more of the stock of two or more banks, we note that you have information from the Comptroller of the Currency and from Supervisors of State Banks indicating 70 such cases. You mentioned that Chairman McCabe, in testifying on S. 2318 in 1950, indicated that there were 83 known situations, and you inquired whether the Board has made any recent survey of the corporate control of banks along this line.

The 83 known situations to which Mr. McCabe referred in 1950 included a number of cases in which a bank held or controlled 15 per cent or more of the stock of only one other bank. These cases presumably would not be in your current list, but they were included in the data drawn up at that time because the definition of "bank holding company" in S. 2318 included ". . . any company which is a bank and which directly or indirectly owns, controls, or holds with power to vote 15 per centum or more of the voting shares of one or more other banks. . ."

Although we constantly make use of available data, we do not have what we would consider to be a complete list of all companies, or corporations, which hold or control 15 per cent or more of the stock of two or more banks. Moreover, we feel some doubt that a complete list, or a correct list, could be made

4/2/54

-13-

without a great deal of investigation and analysis. It seems to us that such a list must be based on actual or beneficial ownership rather than record ownership of stock; otherwise, cases would be missed where an individual nominee is the record owner of stock which is actually owned by a company or corporation and, conversely, cases would be erroneously included where a nominee company is the record owner of stock which is beneficially owned by, say, a personal trust.

Referring to the last paragraph of your letter, the one bank in Wyoming with approximately \$3,000,000 of deposits is still included in our figures. It is listed in the statistical table of 34 holding company groups as of December 31, 1952, under First Security Corporation, Ogden, Utah (page 45, Part 1, Hearings before the Committee on Banking and Currency, United States Senate, on S. 76 and S. 1118--June 10, 11, and 12, 1953).

We trust that the information herein contained will be helpful to you in the study you are making. With the thought that the information might be of interest to the Committees on Banking and Currency of the Senate and the House of Representatives, copies of this letter are being sent to the respective Chairmen of those Committees.

Approved unanimously.

Messrs. Leonard, Vest, Myrick, and Hackley then withdrew from the meeting.

Prior to this meeting there had been circulated to the members of the Board a memorandum from Mr. Thomas dated March 24, 1954, discussing various matters relating to the Fourth Meeting of Technicians of Central Banks of the American Continent, to be held during the period May 3-14, 1954, with the first week's sessions in Washington and the remaining

4/2/54

-14-

sessions in New York. The memorandum, which commented on the agenda for the meeting, the procedure to be followed in discussing the papers submitted by the participating institutions, and the program of entertainment, recommended that the following be designated as members of the Board's delegation to the meeting:

Chairman Martin (Chairman of the delegation)
Governor Szymczak
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research
and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Dembitz, Assistant Director, Division
of International Finance
Mr. Olson, Economist, Division of International Finance
Mr. Kenyon, Assistant Secretary of the Board
(Secretary of the delegation)

The plans for the meeting as set forth in the memorandum were noted without objection and the persons named above were designated as members of the Board's delegation to the meeting.

Governor Robertson referred to a memorandum dated March 24, 1954, from Mr. Allen, Director, Division of Personnel Administration, regarding the procedure for making national agency checks on persons employed by the Board of Governors and for making informal clearances of certain Federal Reserve Bank personnel when such clearance appeared to be in the national interest. The memorandum, which had been in circulation among the members of the Board, pointed out that pursuant to action of the

4/2/54

-15-

Board on October 12, 1953, a letter was sent to the Civil Service Commission stating, for reasons given in the letter, that the Board wished to continue to make the national agency checks on all persons employed by the Board. The memorandum further stated that in the past it had been possible for the Board to make its own checks because the Federal Bureau of Investigation had been willing to honor requests sent direct from the Board to the Bureau, but that a form letter from the Bureau dated March 4, 1954, a copy of which was attached to the memorandum, advised that under procedures now set up by the Civil Service Commission, all such requests must be routed through the Civil Service Commission. The possibility of an exception having been explored with the Civil Service Commission and the Federal Bureau of Investigation without success by the Division of Personnel Administration, the memorandum stated that in the absence of objection by the Board, the Division planned to send requests regarding new employees to the Civil Service Commission.

After Governor Robertson and other members of the Board had stated reasons why they felt it would be desirable for the Board to continue to make its own national agency checks on Federal Reserve personnel, it was suggested that Chairman Martin discuss informally with Mr. Philip Young, Chairman of the Civil Service Commission, whether the present arrangement could be continued without interfering unduly with the practices of the Commission.

This suggestion was approved unanimously.

4/2/54

-16-

Governor Mills, who had been serving as alternate to Chairman Martin on the Committee on Retirement Policy for Federal Personnel established pursuant to Public Law 555, 82d Congress, stated that Mr. H. Eliot Kaplan, Chairman of that Committee, had called him on the telephone yesterday and said that the Committee planned to present to the Congress shortly a report which would recommend, among other things, that persons who were members of the Civil Service Retirement System also be made subject to the Old Age and Survivors Insurance coverage of the Social Security System. Governor Mills went on to say that Mr. Kaplan inquired what position the Board would wish to take with respect to its employees in the event the Committee made a recommendation covering Board employees. Governor Mills expressed the view that the Board should not voice an opinion regarding any change in the Board Plan of the Retirement System of the Federal Reserve Banks at the present time, it being his judgment that there was time for the Board to study the matter more fully.

There was unanimous agreement
with Governor Mills' suggestion.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, and San Francisco stating that the Board approved the establishment without change by the Federal Reserve Bank of Boston on March 29, by the Federal Reserve Bank of San Francisco on March 31, and by the Federal Reserve Banks of New York, Philadelphia, and Atlanta on April 1, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

4/2/54

-17-

Chairman Martin reported that he had received a telephone call from Mr. Harold E. Talbott, Secretary of the Air Force, who expressed the hope that the Board would not approve the establishment of branches in Spain by United States banks or banking corporations without allowing him to comment. Chairman Martin said he told Secretary Talbott that the Board would be glad to give him an opportunity to express his views in connection with any such applications.

At this point Messrs. Kenyon and Young withdrew from the meeting and Messrs. Allen, Director, Division of Personnel Administration, and Hackley, Assistant General Counsel, entered the room.

Governor Vardaman referred to the report he made to the Board on January 21, 1954, regarding Mr. Boothe, Administrator, Office of Defense Loans, and the fact that he had suffered a heart attack. Governor Vardaman stated that Mr. Boothe had had another attack yesterday and had been taken to the hospital and that it was not known at this time when he would be able to return to the office. Governor Vardaman commented upon the current volume of work in the Office of Defense Loans and recommended that, for reasons which he stated, Mr. J. J. Connell, Technical Assistant in the Office of Defense Loans, be designated Acting Administrator, Office of Defense Loans, on a temporary basis. Governor Vardaman also stated that it would be desirable to have some other person become familiar with the procedure for handling defense loans so that the work could be carried along satisfactorily in the event Mr. Connell were to be absent, and he suggested that the Board authorize

4/2/54

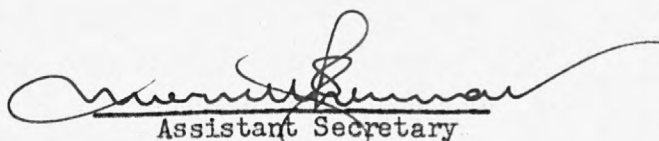
-18-

Mr. Connell to work with Mr. Allen and Mr. Hackley with a view to recommending some member of the Board's staff, preferably from the Division of Examinations or the Division of Bank Operations, who could assist in the Office of Defense Loans on a part-time basis and become familiar with the work of that office. He also stated that in due time he would ask the Board to make some adjustment in Mr. Connell's compensation.

Following a brief discussion, during which Governor Vardaman emphasized that Mr. Connell's appointment would be on a purely temporary basis, unanimous approval was given to his suggestions that (1) Mr. Connell be designated Acting Administrator of the Office of Defense Loans on a temporary basis effective Monday, April 5, 1954, and (2) that Mr. Connell be authorized, in consultation with Mr. Allen and Mr. Hackley, to explore the possibilities of obtaining someone to assist in the Office of Defense Loans.

The meeting then adjourned. During the day the following additional action was 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 April 1, 1954, were approved unanimously.


Assistant Secretary