

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 16, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
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. Horbett, Assistant Director, Division of Bank Operations
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Koch, Chief, Banking Section, Division of Research and Statistics
Mr. Eckert, Economist, Division of Research and Statistics

There was presented a request from Mr. Riefler for authority to travel to Chicago, Illinois, and Kansas City, Missouri, during the period April 21-26, 1954, to attend the meeting of the board of directors of the Federal Reserve Bank of Chicago on April 22, to participate in the Business Economists' Conference at the School of Business of the University of Chicago on April 23, and to visit the Federal Reserve Bank of Kansas City on April 26.

Approved unanimously.

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At the meeting of the Board yesterday it was agreed that if advice should be received during the day that the directors of the Federal Reserve Bank of New York or any other Federal Reserve Bank acted to establish a rate of 1-1/2 per cent rather than 1-3/4 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, such Banks should be advised that the Board approved the establishment of the 1-1/2 per cent rate. Advice having been received from the Federal Reserve Banks of New York and San Francisco later in the day that such action had been taken by their directors, those Banks were notified that the establishment of the lower rate was approved. On the other hand, it was decided at yesterday's meeting that approval of any other rates of discount and purchase which might be fixed by any Federal Reserve Banks should be withheld for consideration at the meeting of the Board today. Accordingly, there were presented at this meeting telegrams reading as follows:

To Mr. Sproul, President, Federal Reserve Bank of New York

Reurtel and Board's reply April 15, Board approves effective immediately rate of 2 per cent on advances to member banks under Section 10(b). Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of April 15.

To Mr. Millard, Vice President, Federal Reserve Bank of San Francisco

Reurtel and Board's reply April 15, Board approves effective immediately rate of 2 per cent on advances to member banks under Section 10(b) and 1-1/2 per cent on discounts for Federal Intermediate Credit Banks. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained

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in your telegram of April 15.

Approved unanimously, with the understanding that advice would be sent by telegram to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of Federal Reserve Bank branches.

There were presented proposed telegrams to the Federal Reserve Banks of Boston, Philadelphia, and Atlanta stating that the Board approved the establishment without change by the Federal Reserve Bank of Boston on April 12, by the Federal Reserve Bank of Atlanta on April 14, and by the Federal Reserve Bank of Philadelphia on April 15, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At the meeting on February 23, 1954, the Board, in connection with the employment security program, approved the designation of 66 positions within the Board's organization as "sensitive", with the understanding that full field investigations would be conducted for each individual occupying one of those positions. At this meeting Governor Robertson recommended, for reasons which he stated, that in addition to the positions designated as "sensitive" on February 23, the position of Mr. Molony, Special Assistant to the Board, be so designated.

Approved unanimously.

At the meeting on April 6, 1954, it was agreed that material pertinent to a discussion by the Board of member bank reserve requirements would be prepared by the staff and sent to the members of the Board prior

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to such discussion. Accordingly, there had been sent to the members of the Board before this meeting copies of a memorandum from Messrs. Thomas and Young dated April 9, 1954, dealing with various considerations bearing on a possible reduction in reserve requirements. The memorandum discussed alternative methods for reducing reserve requirements, a reduction in requirements as a further anti-recession action, the relation between a reserve requirement reduction and Treasury cash financing, a reduction in reserve requirements as a measure to equalize requirements between central reserve city and reserve city banks, various open market responses to a reduction in requirements, a reduction in reserve requirements as a move toward a generally lower level of requirements, and the recent loan position of member banks by size categories.

At the request of the Board, Mr. Thomas commented at some length on the matters covered in the memorandum and his remarks were followed by a general discussion during which Mr. Vest, in response to an inquiry by the Board, discussed from a legal standpoint the suggestion made recently in various quarters that the reserve requirements against central reserve city banks be lowered to correspond to the reserve requirements against banks in reserve cities. It was Mr. Vest's opinion, for reasons given in a memorandum which he had sent to the Board on April 2, 1954, that the Board of Governors would have the requisite legal authority to reduce reserve requirements of central reserve city banks so as to make them equal to reserve requirements of reserve city banks, provided such action

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was taken "in order to prevent injurious credit expansion or contraction".

It was also his opinion that the Board would have the legal authority, if it should deem such action advisable, to change the classification of New York or Chicago from that of a central reserve city to that of a reserve city.

No action was decided upon as the result of the discussion of member bank reserve requirements but it was understood that the Board and staff would give continuing study to the subject.

The members of the staff then withdrew and the Board went into executive session.

Thereafter the Secretary's Office was advised by the Chairman that during the executive session the following actions were taken:

Mr. Young, Director of the Division of Research and Statistics, was authorized to travel to New York, New York, on April 19 and on April 29, 1954, to attend two meetings of the Committee for Economic Development, the first to discuss a debt management policy statement by the Committee and the second to deal with United States foreign economic policy.

The Board approved for payment a statement in the amount of \$2,562.97 submitted by Arthur Andersen & Co. for services rendered and out-of-pocket expenses incurred in connection with the firm's audit examination of the Board of Governors for the year ended December 31, 1953.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 15, 1954, were approved unanimously.

Memorandum dated April 12, 1954, from Mr. Young, Director, Division of Research and Statistics, recommending that Virginia Johns, Clerk-Stenographer in the Division of Bank Operations, be transferred to the Division of Research and Statistics as Clerk-Stenographer, with no change in her present basic salary at the rate of \$3,335 per annum, effective as of the date of entrance upon her new duties.

Approved unanimously.

Memorandum dated April 8, 1954, from Mr. Sloan, Director, Division of Examinations, recommending that the appointment of Lyle B. St. John, Assistant Federal Reserve Examiner in that Division, be changed from temporary (nine months) to temporary indefinite, with no change in his present basic salary at the rate of \$5,060 per annum, effective April 16, 1954.

Approved unanimously.

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

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New York for the period June 1, 1954, through December 31, 1954, at the rates indicated, which are the rates fixed by

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the Board of Directors as reported in your letter of April 8, 1954:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Robert V. Roosa	Assistant Vice President	\$16,500
John J. Larkin	Manager, Securities Department	10,000

Approved unanimously.

Letter to Mr. Dawes, Vice President and Secretary, Federal Reserve Bank of Chicago, reading as follows:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Chicago for the period June 1, 1954, through December 31, 1954, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of April 9, 1954:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Hugh J. Helmer	Assistant Vice President	\$11,500
Leroy W. Dawson	Assistant Cashier	9,000

Approved unanimously.

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

Reference is made to your letter of March 31, 1954, transmitting the request of Federal Trust Company, Newark, New Jersey, for approval of an increase in its investment in bank premises to an amount exceeding its capital stock.

After careful consideration of this request, the Board of Governors concurs in your recommendation and approves an increase of \$105,000 in the investment in bank premises by Federal Trust Company, Newark, New Jersey.

Approved unanimously.

Letter to Mr. Heflin, Vice President and General Counsel, Federal Reserve Bank of Richmond, reading as follows:

This refers to your letter of April 3, 1954, and its enclosures, raising the question whether accounts which

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would be accepted by the Wachovia Bank and Trust Company, Winston-Salem, N. C., under a payroll deduction savings plan proposed to be established for approximately 2,500 employees of the P. H. Hanes Knitting Company may be classified as "savings deposits" under section 1(e) of Regulation Q.

From the above correspondence it appears that under the plan the Hanes Company would withhold a specified amount from each weekly pay of each employee participating in the plan and deposit such amount to the credit of the employee in the Wachovia Bank and Trust Company. Thus, it was explained that on each weekly pay day the participating employee of the Hanes Company would receive with his pay check a "savings account card" which would show on its face his name, the account number, date of issue of the card, columns for the entry of deposits and withdrawals, the current account balance, and the following inscriptions:

"PASSBOOK

SAVINGS DEPARTMENT

WACHOVIA BANK AND TRUST COMPANY, WINSTON SALEM, N.C."

"THIS CARD MUST BE BROUGHT TO THE BANK WHENEVER A DEPOSIT IS MADE OR MONEY WITHDRAWN. CARDS FOR THIS ACCOUNT BEARING A PRIOR DATE ARE HEREBY CANCELLED."

Savings account rules and regulations which ordinarily appear on the inside cover of the conventional-type passbook would be printed on the reverse side of the card.

It was explained further that the "savings account cards" would be intended to serve the participating employee-depositors as "savings passbooks" until the following weekly pay day when new cards would be issued; that deposits or withdrawals by an employee-depositor between pay days would be permissible and would be entered by a savings teller on the then current card; that the account balance at the end of each weekly period would be carried over to the new card; and that interest payments and taxes would be computed and posted quarterly. Thus, any particular card would show only the deposits and withdrawals made during the current week, and issuance of a new card would automatically cancel cards previously issued. It appears that the proposed plan has been devised so as to permit the Bank to use its IBM punch card equipment for the processing of the deposits.

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The definition of the term "savings deposit" in section 1(e) of Regulation Q requires that the deposit shall be "evidenced by a passbook" which must be presented in connection with each withdrawal, except where payment is made to the depositor himself. The regulation also requires that every withdrawal shall be entered in the passbook. Furthermore, the Board has indicated previously that the term "passbook" as used in Regulation Q means an account book in which deposits and withdrawals are entered and that such a book should be a continuing record of the transactions in the account.

The 1933 amendments to section 19 of the Federal Reserve Act prohibited the payment of interest on demand deposits and the payment of time deposits before maturity but did not make those restrictions applicable to savings deposits. Accordingly, savings deposits were made a favored class of deposits in that they became the only type of deposit with respect to which member banks were given the privilege of making payment on demand with interest and, at the same time, of carrying reserves less than those required against demand deposits. The versions of Regulation Q immediately following the 1933 amendments stated that a "savings deposit", among other things, was a deposit evidenced by a "passbook or other form of receipt". This was similar to the language already in use in Regulation D relating to reserves of member banks. However, these definitions proved inadequate to prevent the favored status of savings deposits from leading to certain abuses, including the classification of checking accounts as savings deposits. It was to prevent such abuses and confusion between classes of deposits that both Regulation D and Regulation Q were amended in 1936 to provide that a deposit may not be regarded as a savings deposit unless "evidenced by a passbook". These amendments to the regulations recognized that a workable distinction between savings accounts and checking accounts could not be maintained unless the regulatory language was such as to prevent various arrangements which would eliminate the use of passbooks of the kind traditionally a distinguishing mark of savings deposits.

The "savings account card" in question appears to be materially different from a passbook as it is generally understood; and, accordingly, the Board would not be disposed from the information presented to regard such

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a card as constituting a "passbook" within the meaning of section 1(e) of Regulation Q. Therefore, the accounts as proposed under the plan would not be eligible for classification as "savings deposits". These views appear to conform to those of your Bank.

Approved unanimously.

Letter to Mr. Irons, President, Federal Reserve Bank of Dallas, reading as follows:

The Board of Governors has received the Republic National Company's letter of March 30, transmitted through your Bank, furnishing information regarding the new intercorporate and trustee arrangements regarding the stock of the seven banks (named therein) related to Republic National Bank of Dallas.

The Board suggests that Mr. Florence be advised that his letter has been received by the Board and that the Federal Reserve Bank of Dallas has under consideration the holding company affiliate status of the several corporations involved. If the Bank finds, as appears to be the case on the basis of the facts presented, that Fair Park Corporation and Oak Lawn Corporation are holding company affiliates of Fair Park National Bank and Oak Lawn National Bank, respectively, it is assumed that said corporations and banks will be informed that the stock of the banks held by the corporations may not lawfully be voted unless the corporations shall have first obtained voting permits from the Board of Governors.

You are requested to advise the Board of the Bank's action in this matter.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

Reference is made to your letter of April 9, 1954, enclosing a certified copy of a resolution adopted by the board of directors of the Citizens State Bank, Roby,

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Texas, signifying its intention to withdraw from membership in the Federal Reserve System and an accompanying letter signed by B. C. Drinkard, President of the bank, requesting a waiver of the six months' notice of such withdrawal. It is understood that the bank has applied to the Federal Deposit Insurance Corporation for continuance of insurance of its deposits.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw was first given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

Approved unanimously.

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

Reference is made to a letter from your office dated January 25, 1954, enclosing photostatic copies of an application to organize a national bank in Cupertino, California, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco reveals generally favorable findings with respect to the factors usually considered in connection with such applications, except that definite arrangements have not been made for the managing officer of the proposed bank. In the circumstances, the Board recommends approval of the application provided the operating management to be selected is satisfactory to your office.

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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.

Letter to the Honorable Warren Olney, III, Assistant Attorney General, Department of Justice, Washington, D. C., reading as follows:

Re: Freezer Foods, Inc., et al
Ref: WO:ENB:js 146-17-57

We have received from Mr. John W. McIlvaine, United States Attorney, Pittsburgh, Pennsylvania, a copy of his letter to you dated April 2, 1954 regarding the above matter, and we have also received from Mr. Samuel H. Reis, in your Division, a telephone inquiry regarding Mr. McIlvaine's letter.

Mr. McIlvaine's letter appears to be based upon a misconception, because there was no suspension of the registrant's license.

Also, Mr. McIlvaine's letter says that the file contains no evidence of any violation subsequent to March 17, 1952 when a conference was held by the officers of the defendant company and representatives of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland. Following that conference the Federal Reserve Bank referred the matter to the Board of Governors with a recommendation as to the action which the Board should take, and the company was not investigated again thereafter, the Regulation having been suspended on May 7 of that year. Consequently the file would not show whether or not there were any violations after the March 17 conference.

The Board of Governors, as you know, has taken the position that a case which has been referred to the Department of Justice is then in the hands of the Department of Justice and of the United States Attorney and is not one which is pending before the Board or in its jurisdiction. Consequently the Board does not wish to make any comment on Mr. McIlvaine's decision not to prosecute this case.

Approved unanimously.

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Letter to Mr. Stanley N. Barnes, Assistant Attorney General,
Department of Justice, Washington, D. C., reading as follows:

This is in response to your letter of March 31, 1954, in which you request certain information concerning advisory or consultative groups which the Board of Governors utilizes in carrying out its responsibilities.

Two committees are provided for in the Federal Reserve Act. One of these, the Federal Advisory Council, was created by Section 12 of the Federal Reserve Act and is composed of one representative from each of the 12 Federal Reserve districts selected by the boards of directors of the Federal Reserve Banks. The Council by law has power (1) to confer with the Board of Governors on general business conditions; (2) to make representations concerning matters within the jurisdiction of the Board; and (3) to call for information and to make recommendations, among other things, in regard to discount rates, reserve conditions in various districts, open market operations, and the general affairs of the reserve banking system.

Section 13b of the Federal Reserve Act authorizes the Federal Reserve Banks, under certain conditions pursuant to authority granted by the Board, to provide financial assistance to established industrial or commercial businesses. That section also has established in each Federal Reserve district an industrial advisory committee which is appointed by the Federal Reserve Bank subject to the approval and regulations of the Board. Each member of this committee is required to be actively engaged in some industrial pursuit within the Federal Reserve district in which the committee is established. Industrial loans by Federal Reserve Banks pursuant to this section are subject to the Board's Regulation S, a copy of which is enclosed.

The Board does not now utilize any advisory committees under the Defense Production Act of 1950.

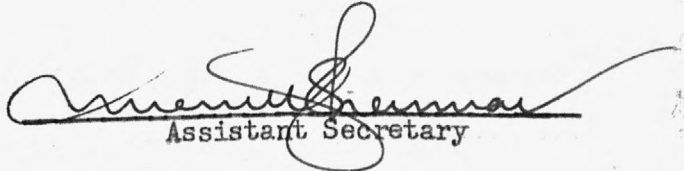
On an entirely informal basis members of the Board's staff, as well as members of the Board, meet from time to time with representatives of various organizations in the field of banking to discuss matters of mutual interest. Also, the Board's Division of Research and Statistics procures a wide variety of information from private sources with respect to general economic

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and statistical matters. However, we assume that these meetings and research activities do not come within the purview of the type of information requested in your letter.

Approved unanimously.


Assistant Secretary