

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 24, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson

Mr. Carpenter, Secretary
 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. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Horbett, Assistant Director, Division of Bank Operations
 Mr. Masters, Assistant Director, Division of Examinations

There was presented a request from Mr. Young, Director, Division of Research and Statistics, for authority to travel to New York, New York, on May 25, 1954, to make an informal address at a dinner meeting of the American Press Institute of Columbia University.

Approved unanimously.

There had been circulated to the members of the Board prior to this meeting a draft of letter to Mr. Pondrom, Vice President of the Federal Reserve Bank of Dallas, regarding an application for full fiduciary powers submitted by The First National Bank of Artesia, Artesia, New Mexico. The proposed letter, reading as follows, was presented for consideration at this meeting because the position taken therein differed

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from that recommended by the board of directors of the Federal Reserve Bank of Dallas:

This refers to your letter of March 22, 1954, with which you enclosed an application for full fiduciary powers submitted on behalf of The First National Bank of Artesia, Artesia, New Mexico, with the recommendation of your Board of Directors for favorable action.

A similar application by this bank was submitted to the Board on November 5, 1953, in connection with which it was the recommendation of your Executive Committee that approval of the application be subject to the provision that capital funds of the bank be increased by \$100,000 from the sale of new common stock. In a letter to you dated December 2, 1953, the Board indicated its agreement with the recommendation that additional capital funds be provided by this bank in advance of the grant of authority extending its corporate activities into the trust field. The Board, however, was unwilling to grant this initial application on a conditional basis, but indicated its willingness to consider a new application at such time as the bank's capital funds had attained a more satisfactory relationship to the volume of its banking activities and the character of its assets.

Shortly after receipt of the application submitted with your letter of March 22, we were informed that an examination of the applicant was in progress and, inasmuch as this would be the first examination subsequent to that upon which the earlier decision of the Board had been based, we advised you on April 27 that consideration of the subject application would be delayed until the current examination report was made available to us.

We have now given careful consideration to all of the information submitted with the new application for trust powers and to the condition of the bank as it is shown by the examination made as of April 7, 1954. While this examination report indicates the bank to be in fairly good condition, loan volume is regarded as heavy and expanding, and the present volume of criticized assets (47 per cent of capital structure) has resulted in a lowering of the assigned rating on asset quality. In addition, the under-capitalized condition in this bank remains little changed. It is noted that \$100,000 has been more or less frozen in the capital account as a result of payment of a \$50,000 stock dividend and transfer of \$50,000 to surplus

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from undivided profits. Also, full retention of net earnings has resulted in approximately a \$50,000 increase in net capital funds since the previous examination. However, capital ratios show very little improvement since the July 30, 1953 examination, and the national bank examiner has continued to urge management of this bank, in view of an over-loaned condition which has continued for over five years, to take action to authorize the sale of new capital stock in such amount as will bring capital funds into a more appropriate relationship to volume of risk assets carried. The current examination report makes it clear, nevertheless, that the directors are opposed to such action; in fact, their opposition to an increase in capital funds seemed more definite at this time than had previously been apparent.

The information submitted by you in connection with this application makes it rather clear that there is a need for corporate fiduciary services in the area served by this bank, that a fair volume of fiduciary business could be anticipated within a reasonable time, and that trust administrative functions would likely receive careful attention, supported by sound policies, and be discharged in a generally satisfactory manner despite the lack of specialized experience in this field on the part of the proposed trust officer. Despite these favorable factors, authority to exercise trust powers would involve added exposure for a capital account which is regarded as not wholly adequate to support existing risks and responsibilities. It is the view of the Board, therefore, that the requested authority should not be granted in this case until such time as the condition of the bank and its capital structure are no longer the subject of important criticism by supervisory authorities.

Approved unanimously.

Messrs. Sloan and Masters then withdrew from the meeting.

In accordance with the discussion at the joint meeting of the Board and the Federal Advisory Council on May 18, 1954, there had been prepared a draft of letter to be sent to each member of the Council transmitting certain data relating to bank reserve requirements which had been furnished to Dr. E. Sherman Adams, Deputy Manager of the American Bankers Association. Copies of the proposed letter, which read as follows, had

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been sent to the members of the Board prior to this meeting together with copies of the material referred to therein:

You will recall that at the joint meeting of the Council and the Board on May 18, 1954, mention was made of the fact that, pursuant to a suggestion by Mr. Fleming, certain data had been furnished to Dr. E. Sherman Adams, Deputy Manager of the American Bankers Association, for his use in a projected study of bank reserve requirements. Pursuant to the discussion at the joint meeting, copies of these data are enclosed for your use; a list thereof is also enclosed.

The first four items of the data were furnished to Dr. Adams on May 4 merely to illustrate the application of the uniform reserve plan, and he was advised at that time that neither the statistics nor the textual discussions were to be construed as Board support of such a plan. The remaining items were furnished Dr. Adams on May 11, following a meeting with him at the Board's offices, for the purpose primarily of illustrating some of the problems and questions that arise in considerations of an appropriate basis for differentials in reserve requirements. Dr. Adams was advised in the course of the meeting with him that distribution of the data contained in the documents should be limited as much as possible and the data should be used in such manner as would avoid their being regarded as definite proposals by the Federal Reserve System for a specific reserve plan or specific reserve percentages.

As you doubtless know, many efforts have been made over the years and System studies are again under way to formulate a more suitable, logical, and acceptable basis for member bank reserve requirements than that now prescribed. The Board is glad to furnish you the enclosed data for your use in consideration of the subject, with the understanding, of course, that the data are not to be regarded as any indication that the Board is proposing at this time any specific plan or reserve percentages.

Approved unanimously, with the understanding that copies of the letter and its enclosures would be sent to Mr. Prochnow, Secretary of the Federal Advisory Council, and to the Presidents of all Federal Reserve Banks for their information.

Messrs. Leonard and Horbett then withdrew from the meeting.

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In response to an inquiry by Governor Robertson as to what further steps were contemplated in the study of the discount mechanism, Governor Mills referred to the "Summary of Positions taken by Reserve Banks on Issues Raised by Report on the Discount Mechanism" which was prepared in the Division of Research and Statistics and copies of which were sent to each member of the Board last week. After commenting briefly on the summary, which he felt represented a satisfactory analysis of the replies received from the Federal Reserve Banks, Governor Mills stated that the Board should review that information shortly and determine its attitude toward the report. He went on to say that Chairman Coleman and President Williams, the other members of the System Committee on the Discount and Discount Rate Mechanism, had not as yet had an opportunity to study the summary and that the committee would meet again to formulate its thoughts for the benefit of the Board and the Presidents of the Federal Reserve Banks prior to the next meeting of the Presidents' Conference in June. It was Governor Mills' hope that a meeting of the committee might be arranged within the next ten days. He understood that the Presidents were planning to have their economists join them in a study of the report at the time of their next meeting.

Governor Mills also commented on a meeting which he had with members of the Board's staff last Friday, May 21, saying it was felt that

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it would be possible to develop a revised Regulation A, Discounts For and Advances To Member Banks, which would meet satisfactorily most of the points raised by the Reserve Banks in their comments concerning the report on the discount mechanism.

Governor Robertson referred to the study currently being made by the Committee on Foreign Operations of American Banks and suggested that there be passed on to that group for consideration a legislative proposal received from the Office of the Comptroller of the Currency which would authorize foreign branches of American banks to execute guarantees in favor of foreign governments to the same extent that competing foreign banks are so authorized. It was understood that the procedure suggested by Governor Robertson would be followed.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 21, 1954, were approved unanimously.

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

The Board of Governors approves the payment of salaries to the following officers for the period May 16, 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 May 14, 1954.

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Victor M. Longstreet	Vice President, Louisville Branch	\$13,500
Fred Burton	Vice President	12,500
Donald L. Henry	Assistant Manager, Louisville Branch	8,200

It is noted from your letter that Mr. Burton will be assigned to the Little Rock Branch effective June 21, 1954, and effective August 1, 1954, he will succeed Mr. Clarence M. Stewart as the Vice President in charge of the Little Rock Branch, following Mr. Stewart's retirement.

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

This refers to your letter of March 15, 1954, and its enclosures, regarding the request of New Hampshire Bankshares, Inc., Nashua, New Hampshire, that the Board certify to the Commissioner of Internal Revenue, pursuant to Section 26 (d) of the Internal Revenue Code, that the holding company affiliate devoted earnings or profits in the amount of \$196.71 during its taxable year 1953 to the acquisition of readily marketable assets other than bank stock in compliance with Section 5144 of the Revised Statutes.

There is enclosed a copy of Section 39.26 (d)-1 of Income Tax Regulations 118, which describes the procedure to be followed by a holding company affiliate claiming the credit provided for in Section 26 (d) of the Internal Revenue Code. Attention is directed to the fact that the corporation should attach to its return a supplementary statement, in duplicate, setting forth all the facts and information upon which the claim is predicated, and that a certified copy of the supplementary statement should be forwarded to the Board of Governors. It will be noted also that any certification by the Board is to be made when requested by the Commissioner of Internal Revenue subsequent to the filing of the return.

The regulations state that the supplementary statement should include such facts and information as the Board may prescribe as necessary to enable it to make the certification. The Board has not attempted to prescribe what information must be included in the supplementary statement. Additional information may be required if the Board's certification is requested by the Commissioner, depending upon the facts before the Board when such request is received.

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In the circumstances, it does not appear that any action by the Board with respect to this matter is appropriate at this time. No opinion is expressed, of course, concerning the question whether New Hampshire Bankshares, Inc., is entitled to the credit claimed by it.

Approved unanimously.

Letter to the Board of Directors, Jackson City Bank and Trust Company, Jackson, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch at 1213½ Greenwood Avenue, Jackson, Michigan, and a branch on West Ganson Street near the intersection of West Avenue, Jackson, Michigan, by Jackson City Bank and Trust Company, provided the branches are established within eight months from the date of this letter.

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

Letter to the Chairmen of all Federal Reserve Banks reading as follows:

The procedure described in the Report of the Special Committee on Officers' Salary Administration dated March 17, 1953, provides for the consideration of the salaries of the officers of the Federal Reserve Banks and Branches by the Board of Governors in connection with the annual budget as submitted by each Reserve Bank.

The instructions contained in the budget section of the Accounting Manual For Use of Federal Reserve Banks in Preparing Certain Reports to the Board of Governors, contemplate that the salaries of officers will be fixed by the Board of Directors prior to October 1, each year, effective as of the following January 1, in order that they may be covered in the budget to be submitted to the Board of Governors.

To assist the Board of Governors and to facilitate the review, it is requested that the following information with respect to officers' salaries be furnished at the time the annual proposals are submitted for consideration:

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1. The total amount provided for officers' salaries for the budget year, together with explanatory comments regarding the difference, if any, between the total provided for the budget year and the total proposed as of January 1, of the budget year.
2. A list of all officers as of January 1, of the budget year, showing with respect to each officer (a) name; (b) title; (c) present annual salary; and (d) proposed annual salary as fixed by the Board of Directors effective January 1, together with such comments as seem pertinent with respect to any proposed salary adjustments.
3. A copy of the organization chart of the Reserve Bank including branches, if any, that would reflect all changes contemplated as of January 1, if any.

Whenever an officer is assigned to another position, his title is changed, or a major change is made in his duties, please advise the Board of Governors in order that its records may be maintained on a current basis. In such instances, also please furnish a revised description of the officer's duties and responsibilities as early as convenient, if one is required to reflect the changes. In addition, please furnish the Board of Governors with a copy of the Bank's organization chart whenever circumstances cause the issuance of a revised chart.

It is further requested that future letters requesting approval of individual salary increases or changes in salary ranges contain advice as to what provision in the budget has been made for the proposed changes and as to what the effect would be upon the budget.

This letter supersedes and cancels the Board's letter of August 3, 1948, (S-1030, F.R.L.S. #9090.1).

Approved unanimously, with
copies to the Presidents of all
Federal Reserve Banks.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

You have undoubtedly been informed or read of the nationwide Civil Defense test exercise "Operation Alert" that is to be held on June 14-15 in cooperation with Canada, and in which

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the United States territories and possessions will also participate.

In order to test the arrangements for continuity of Government in times of emergency, the Office of Defense Mobilization is planning to run, in conjunction with "Operation Alert," a test of the emergency relocation program as it relates to Government establishments.

The Board is planning to participate in the test of the emergency relocation program and Gov. Robertson, as alternate to Chairman Martin, will go to the place outside of Washington where the top group of Government officials will be assembled. Members of the Board's staff who are on the Board's Defense Planning Committee will go to the Board's relocation center at the Federal Reserve Bank of Richmond to inspect arrangements and test communication facilities.

As part of the System's participation in the test, it is planned to have the Interdistrict Settlement conducted Monday night, June 14, by the Federal Reserve Bank of Richmond. It is requested, therefore, that the settlement wires for that date be addressed to the Board at the Federal Reserve Bank of Richmond and be transmitted over the emergency stand-by TWX lines.

As a partial test of currency arrangements, the Assistant Federal Reserve Agents will be requested to forward to the Board at the Federal Reserve Bank of Richmond duplicate copies of any requisitions (either on regular form or by telegram) for Federal Reserve notes sent on June 14 and 15. Officers of the Federal Reserve Bank of Richmond who have been authorized to act for the Board in such matters will complete the necessary requests and forward them to the Board at Washington. Actual shipment of the notes, however, will be made in the usual course upon the basis of the original requests sent to the Board at Washington.

Both the Civil Defense test, which will include most of the Federal Reserve Bank and branch cities, and the ODM test should afford an opportunity for the Federal Reserve Banks to cooperate fully in defense planning and to appraise the effectiveness of the planning that has been done so far as it relates to Federal Reserve activities and responsibilities. It is requested, therefore, that in connection with the test you review the planning that has been done, including provision for appropriate delegation of

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authority and succession of command, and following the test advise the Board what emergency demands would be made upon your bank and branches, if any, if the emergency were actual rather than simulated and how well your bank and branches would be prepared to meet them.

It is also requested that your advice include suggestions as to what further emergency measures in your judgment should be adopted to insure, so far as practicable, satisfactory functioning of the banking system in the event of attack and to facilitate the making of decisions in the field of monetary and credit policy.

Approved unanimously.

Letter to the Office of the Comptroller, General Services Administration, Washington, D. C., reading as follows:

In accordance with the request contained in GSA Circular No. 80 and Supplement No. 1, dated December 18, 1953 and March 3, 1954, respectively, there is transmitted herewith GSA Form No. 1166 "Report of Federal Real Property as of December 31, 1953" describing the real property holdings of the Board of Governors of the Federal Reserve System.

In any reference to the Board's real estate it should be noted that funds for the purchase of the property and construction of the building were derived, not from appropriations, but from assessments levied on the Federal Reserve Banks in accordance with section 10 of the Federal Reserve Act which also provides that the Board shall have sole control of the property.

Approved unanimously.

Letter to Mr. Edward Schoen, Jr., General Counsel, Small Business Administration, Washington, D. C., reading as follows:

This refers to your letter of May 10, 1954, requesting advice with respect to the following questions which have been raised by your Seattle Regional Office regarding loans subject to deferred participation agreements by your Administration:

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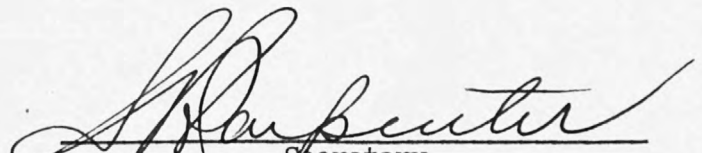
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- "(1) Is the portion of the loan subject to our deferred participation held to affect the size of the loan with respect to the statutory maximum loan which may be made by the participating bank?
- "(2) Is the amount of the deferred participation considered in the category of a risk asset or of a liquid government security when an analysis of the condition of the participating bank is under examination by your agency?"

The first question stated is one with respect to which this Board has no jurisdiction. As to national banks, the Comptroller of the Currency has taken the position, as indicated in the Comptroller's letter to your Administration of November 9, 1953, that the portion of any loan made by a national bank which is subject to an unconditional agreement to purchase by Small Business Administration would be exempted from the provisions of section 5200 of the Revised Statutes limiting loans by national banks to one borrower. As to loans made by State banks, even though members of the Federal Reserve System, the matter is one which would be governed by applicable State law; and, in this connection, it is understood that many States provide exemptions, similar to that provided by section 5200 of the Revised Statutes, with respect to any portion of a loan which is guaranteed or subject to a commitment to purchase by an agency of the Federal Government.

With respect to the second question stated in your letter, this Board has not undertaken to designate any securities as "risk" or "riskless". It may be stated, however, that any loan made by a member bank of the Federal Reserve System which is subject to an unconditional agreement to purchase entered into by Small Business Administration, as described in the letter from the Comptroller of the Currency of November 9, 1953, would appear to fall in the same category as other loans which are guaranteed or subject to agreements to purchase by agencies of the United States Government.

Approved unanimously.


Secretary