

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 8, 1954. The Board met in the Board Room at 9:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Connell, Acting Administrator,
Office of Defense Loans

It was reported that last Friday, June 4, Mr. Allen E. Pierce, Staff Director of the Congressional Joint Committee on Defense Production, called Mr. Cherry on the telephone and requested that he be furnished (1) a statement explaining Federal Reserve functions in connection with the processing of an application for a guaranteed defense production loan (V-loan), and (2) a chronological listing of all papers in the Board's files relating to a loan made by the Seattle Trust and Savings Bank, Seattle, Washington, to the United States Tin Corporation, of Seattle, Washington. The loan in question was guaranteed by General Services Administration. The circumstances surrounding the request were discussed in a memorandum to the files prepared by Mr. Connell under date of June 7, 1954.

6/8/54

-2-

In commenting on the matter, Mr. Connell said that he had explained the nature of Federal Reserve activities in connection with the V-loan program to Mr. Pierce in a telephone conversation and had told Mr. Pierce that a request for information regarding a particular V-loan would have to be considered by the Board. Mr. Connell also stated that a representative of General Services Administration, with whom he discussed the request by telephone, indicated that that agency would have no objection if the Board should decide to supply the material sought by Mr. Pierce.

Following a discussion, Chairman Martin suggested that Mr. Pierce be advised that before furnishing the information the Board would like to have a letter from Senator Capehart, Chairman of the Joint Committee on Defense Production, formalizing the request. It was also suggested, in this connection, that Mr. Cherry call upon Mr. Pierce for the purpose of explaining to him why the Board wished to have the request in the form of a letter from the Chairman of the Joint Committee.

The suggested procedure was approved unanimously, with the understanding that if a letter should be received from Senator Capehart, the material requested would be made available.

Secretary's Note: A letter dated June 9, 1954, having been received from Senator Capehart, a reply reading as follows was sent to him

6/8/54

-3-

over the signature of Governor Mills on June 11, 1954:

Reference is made to your letter of June 9 requesting information regarding the procedure followed by the Board with respect to its responsibilities in connection with guarantees of loans under the Defense Production Act, as amended. The Board of Governors and the Federal Reserve Banks do not have any responsibilities under Sections 302 and 303 of the Defense Production Act, their responsibilities being confined entirely to Section 301.

It is believed that the enclosed press statement issued under date of September 26, 1950, together with a copy of the Board's Regulation V, referred to therein, will provide the information you have requested regarding this responsibility of the Board. As indicated in these enclosures, the Federal Reserve Banks act only as fiscal agents of the United States on behalf of the various departments of the Government which have authority to guarantee defense production loans. In carrying out their fiscal agency functions the Federal Reserve Banks transmit applications for loan guarantees, together with all necessary supporting information and their recommendations, through the Board of Governors, to the guaranteeing agency involved.

As indicated in the press statement mentioned above, the Board of Governors, after consultation with the guaranteeing agencies, prescribes regulations governing the operations of the Reserve Banks as fiscal agents, rates and fees to be charged with respect to guaranteed loans, and the forms and procedures to be utilized in connection with the making of such guarantees. However, neither the Board nor the Federal Reserve Banks approve or disapprove any application for a guarantee of a defense production loan. The guaranteeing agencies have sole responsibility for approving or declining all such applications.

In connection with its participation in the guaranteed loan program the Board's Office of Defense Loans acts in a liaison capacity between the guaranteeing agency and the Federal Reserve Banks, and in the interest of expeditious handling of matters relating to these loans all communications between the Federal Reserve Banks and

6/8/54

-4-

the guaranteeing agencies are channeled through that office.

With respect to your request for a chronological list of the contents of the Board's files relating to a loan made by the Seattle Trust and Savings Bank, Seattle, Washington, to the U. S. Tin Corporation, Seattle, Washington, and guaranteed by the General Services Administration, it is the policy of the Board not to release any information regarding individual loans without the consent of the guaranteeing agency involved. In this case we have ascertained from the General Services Administration that it has no objection to furnishing you such information, and it is enclosed herewith.

Messrs. Hackley and Connell then withdrew from the meeting and Mr. Ray M. Gidney, Comptroller of the Currency, entered the room.

The purposes of Mr. Gidney's visit was to afford him an opportunity to explain to the members of the Board his views on a legislative proposal which would modify the present statutory requirement that each national bank be examined at least twice in a calendar year by authorizing the Comptroller of the Currency, in his discretion, to waive one such examination each year. The proposal had been the subject of discussion by the Board at the meeting on March 31, 1954, and at subsequent meetings.

After stating reasons why in his opinion the present statutory requirement was unnecessarily rigid, was not conducive to the best utilization of the time and efforts of national bank examiners, and could safely be made more flexible, Mr. Gidney

6/8/54

-5-

referred to the terms of the legislative proposal as submitted by the Treasury Department to the Bureau of the Budget and suggested that it might be possible to find a compromise which would be mutually acceptable to the Board of Governors and the Treasury Department. In response to a question on this point, Mr. Gidney said that he would be inclined to accept legislation fixing the minimum number of required examinations of national banks at three in each period of two calendar years since such a provision would provide the desired flexibility and, at least in the foreseeable future, the Office of the Comptroller of the Currency would not wish to adopt any more liberal examining schedule.

At the conclusion of a general discussion of the matter, Mr. Gidney left with the Board a copy of a draft of statement designed for inclusion in the Annual Report of the Comptroller of the Currency, stating that the views set forth in this document represented his present thinking on the subject.

Chairman Martin advised Mr. Gidney that the Board would give consideration to his views as promptly as possible.

Mr. Gidney then withdrew from the meeting.

On June 2, 1954, Chairman Martin appeared before the House Committee on Government Operations at a hearing 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

6/8/54

-6-

Federal Reserve Banks and their branches for the year ended December 31, 1953. In the course of the hearing it was understood that a member of the Board's staff would deliver to the House Committee on Banking and Currency the reports of the examinations of the twelve Federal Reserve Banks made during the year 1953 and the audit of the accounts of the Board of Governors made by Arthur Andersen & Co. as of December 31, 1953. Accordingly, there had been prepared a draft of letter to Chairman Wolcott, of the Banking and Currency Committee, stating the circumstances under which the Board would make these reports available, and a draft of letter to Chairman Hoffman, of the Committee on Government Operations, transmitting a copy of the letter to Chairman Wolcott. Copies of these drafts had been sent to the members of the Board in advance of this meeting.

There was a discussion of the drafts and the procedure for transmitting the reports, during which Mr. Cherry said that just before this meeting he had received a telephone call from the Clerk of the House Banking and Currency Committee who requested, on behalf of Representative Patman, that reports of the type indicated above for the past five years be made available for Mr. Patman's inspection.

Following further discussion, it was suggested that in the circumstances Chairman Martin confer with Chairman Wolcott with a view to ascertaining what procedure for delivering the reports of

6/8/54

-7-

examinations and audits might be worked out which would be mutually agreeable to the Board and Mr. Wolcott.

This suggestion was approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 7, 1954, were approved unanimously.

Telegram to Mr. J. Stuart Russell, Farm Editor, Des Moines Register and Tribune, Des Moines, Iowa, prepared pursuant to action taken by the Board on June 7, 1954, and reading as follows:

Board of Governors of the Federal Reserve System has appointed you a Class C director of the Federal Reserve Bank of Chicago for the unexpired portion of the term ending December 31, 1956.

Your acceptance by collect telegram will be appreciated.

Approved unanimously.

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

This refers to your letter of May 28 with its enclosures concerning the request of Empire State Bank of Dallas, Dallas, Texas, for permission of the Board, under its condition of membership numbered 1, to act as transfer agent. It is noted that authority to act in such fiduciary capacity is contained in the bank's charter and that your executive committee has recommended favorable action by the Board. Your letter does not indicate whether the staff of the member bank

6/8/54

-8-

includes any individual qualified to perform satisfactorily the duties involved in such appointments.

Before acting on this application, the Board would like to be furnished with additional information demonstrating the experience and qualifications of the individuals who will be responsible for transfer agency activities and, if available, information bearing upon the volume of transfers likely to be handled under the pending appointment. Of the various agency activities for corporations, that of transfer agent is perhaps the most complex. Inasmuch as it involves passing upon the regularity and legality of assignment of title to shares, it carries important rights and powers requiring a high degree of skill and integrity in their performance. A satisfactory discharge of the duties and responsibilities concerned requires the services of an experienced individual thoroughly acquainted with the law applicable to the transfer of stock and skilled in the technicalities involved, particularly as they relate to transfers to and from corporate and fiduciary names.

If the Empire State Bank of Dallas were in a wholly satisfactory condition and its management enjoyed a more favorable rating, the Board would be less inclined to question whether adequate attention would be accorded the functions required by the fiduciary activities contemplated.

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

Receipt is acknowledged of your letter of May 21, 1954 enclosing a copy of a bill, H.R. 7488, and requesting the views of the Board with respect thereto.

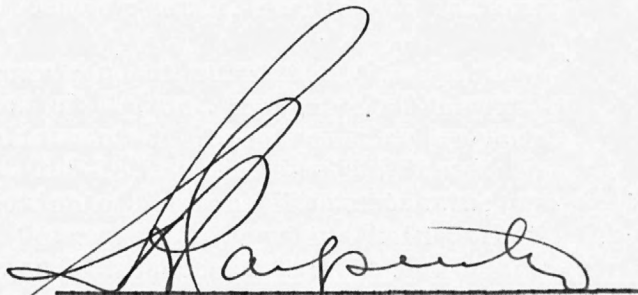
The bill would amend the Internal Revenue Code so as to authorize certain banks (it is understood that they are less than ten in number) to deduct from their income, for the purpose of computing income taxes,

6/8/54

amounts paid to the United States or any wholly owned agency or instrumentality thereof in retirement of preferred stock issued by the banks or their predecessors between January 1, 1938 and December 31, 1940.

The bill would have the effect of reducing the taxes of a certain limited number of banks but apparently would not provide similar benefits for other taxpayers that might be considered to be in comparable circumstances, and the questions presented would seem to relate chiefly to tax policy rather than to monetary or credit policy. In the circumstances, the Board feels that it does not have sufficient information upon which to base an opinion as to the relative merits or demerits of the bill.

Approved unanimously.


Secretary