Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 8, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, 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. Vest, General Counsel
Mr. Marget, Director, Division of International Finance
Mr. Sloan, Director, Division of Examinations
Mr. Noyes, Assistant Director, Division of Research and Statistics
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance
Mr. Olson, Economist, Division of International Finance

Chairman Martin read the following draft of letter to the Secretary of State which had been prepared for his signature pursuant to the understanding at the meeting of the Board yesterday:

> The Board of Governors of the Federal Reserve System has just approved the granting of a loan or loans on gold not to exceed eighty million dollars in the aggregate by the Federal Reserve Bank of New York to the Banco do Brasil as fiscal agent of the United States of Brazil. In approving this loan, the Board of Governors and the Federal Reserve Bank of New York have expressly stipulated that the loan should not be extended beyond an initial period of ninety days.
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> This express stipulation with respect to the firm ninety-day limit is based upon a considered appraisal of the current and prospective payments position of Brazil.

I have felt it desirable to call this matter to your personal attention in order to make clear that the decision against renewal of the loan at the end of the ninety-day period will not be modified in the absence of very clear evidence of a marked improvement in the payments position of Brazil. The circumstances surrounding the application for the loan and its consideration have been discussed with Mr. Rollin S. Atwood of the staff of your Department.

I should be very glad to receive any comments which you may wish to make with respect to this matter.

Chairman Martin stated, in this connection, that he had read the proposed letter to Mr. Sproul, President of the Federal Reserve Bank of New York, who was agreeable to its transmittal.

There was further discussion of the matter during which Mr. Marget stated that, as mentioned in the draft of letter, a member of the Board's staff had discussed the request of Banco do Brasil with a representative of the State Department who indicated that the Department would favor the making of the loan for a three-month period.

At the conclusion of the discussion, unanimous approval was given to the letter from Chairman Martin to the Secretary of State in the form set forth above, together with a telegram to Mr. Davis, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

Your wire July 1. During meeting of Board at which Messrs. Sproul and Rouse were present Board approved granting of loan or loans by your Bank to the Banco do Brasil as fiscal agent of the United States of Brazil not to exceed $80 million in the aggregate on the following terms and conditions and with the clear understanding that the loan or loans will not be renewed or extended beyond the initial three-months period and that if any request for further extension of the loan should be received, such request will not be considered unless there is very clear evidence of marked improvement in Brazilian payments position:

(A) Each such loan shall be secured by the pledge of gold bars held in your vaults of such value that the principal amount thereof outstanding at any time shall not exceed 98 per cent of the value of such gold bars.

(B) Each such loan to mature not later than three months after receipt by you of satisfactory documentation which it is anticipated should be received before the end of August.

(C) Each such loan shall bear interest at the discount rate of your Bank in effect on the date on which such loan is made.

As indicated in (B) of the above terms, it is understood that prior to any advance of funds, you shall require certain documentation through diplomatic channels, including affirmation by the Brazilian Government of the right of Banco do Brasil to pledge gold on behalf of the Government.

It is also understood that the usual participation will be offered to the other Federal Reserve Banks.

This action was taken with the understanding that Mr. Marget would call Mr. Davis on the telephone and suggest to him that the New York Bank's advice to Banco do Brasil regarding the granting of the accommodation be phrased in terms that it was for a three-month period, with no mention of possible renewal beyond the initial period.

Mr. Riefler stated that Mr. McCabe, former Chairman of the Board, called him on the telephone yesterday to discuss the Eisenhower Fellowship Program and to introduce Mr. Park, Director of the Program, who wished to call at the Board's offices tomorrow and would like to obtain an expression of cooperation on the part of the Federal Reserve System. Mr. Riefler said that it had been arranged to have about twelve foreigners visit the United States on fellowships for one year each and that the directors of the program wanted to have six or seven Americans go abroad for a year's study or for other work which was appropriate to the needs of the respective individuals. The persons chosen to receive the fellowships would be of the highest caliber available and preferably would be around 40 years of age. The employer in the United States would continue to pay the employee's salary during the year spent abroad, but the fellowship would cover all other expenses, which might in some cases include expenses of wives and families. Mr. Riefler said that the directors of the program would like very much to have one of the fellowships go to some person within the Federal Reserve System and that they would like to know whether the Board would agree in principle.

In response to questions by members of the Board, Mr. Riefler said he understood that the fellowships would be available to persons in private industry and, inasmuch as only six or seven fellowships were envisaged, he assumed that there would not be much Governmental representation. He also said that he understood the Eisenhower Fellowship Program would select the recipients of the awards, but that he would have to make further inquiry as to the exact method by which the choices would be made.

The matter was discussed and the members of the Board present indicated that in principle they saw no reason why the Federal Reserve System should not cooperate in the program. However, Governor Mills pointed out that certain practical problems might be involved in making available a suitable person from within the System. With regard to the situation at the Board, he noted that two members of the staff of the Division of Research and Statistics already had been granted awards which would involve extended absences from their regular duties.

> At the conclusion of the discussion, it was understood that Mr. Riefler would advise Mr. Park that the Board had agreed in principle to cooperation in the program on the part of the Federal Reserve System, recognizing that there might be practical limitations on the extent of such cooperation.

Governor Mills referred to a letter addressed to him under date of July 1, 1954, by Mr. Powell, President of the Federal Reserve Bank of Minneapolis, discussing informally the plan of that Bank to advance Mr. Franklin L. Parsons, Associate Director of Research, to the position of Director of Research. Mr. Powell's letter, written in confirmation of his conversation with Governor Mills during the meeting of the Presidents' Conference in June, stated that it was the intention of the Minneapolis Bank to take this action at the next directors' meeting, which would be held on Friday, July 9.

In reviewing the situation with respect to research personnel at the Minneapolis Bank, Governor Mills brought out that Mr. Parsons, a specialist in agricultural economics, enjoyed a good reputation in that field and appeared to be a capable administrator. Therefore, it was his view that the Board should interpose no objection to Mr. Parsons' appointment as Director of Research. At the same time, Governor Mills considered it advisable to bring to President Powell's attention the importance of strengthening the Bank's research staff, particularly in the area of monetary economics. These thoughts were embodied in a draft of reply to President Powell which Governor Mills had prepared and which he read at this meeting.

At the request of Governor Mills, Mr. Noyes commented further with regard to the research staff of the Minneapolis Bank and confirmed Governor Mills' views to the effect that as a whole it was somewhat weak in comparison with the research staffs at other Federal Reserve Banks.

> At the conclusion of the discussion, unanimous approval was given to a letter from Governor Mills to President Powell in the following form:

> Your favor of July 1, in which you report your intention to make Mr. Franklin L. Parsons Director of Research of the Minneapolis Bank, has been discussed with the Board and this letter represents its thinking. As you know from experience and from your conversations here at the time of the Presidents' Conference, the Board shares your wish that the research divisions of the Federal Reserve Banks be staffed with the best professional talent that can be recruited. Mr. Parsons is highly regarded in his field and is considered a capable administrator. The Board is agreeable to his appointment as Director of Research.

In view, however, of the number of senior economists who have been lost to the System, the Board is somewhat concerned about the problem of their replacement with persons of comparable experience and intellectual attainments, especially in the field of money and banking. We feel strongly that if the Federal Reserve System is to retain the respect and confidence of both academic economists and leaders in the banking and financial community, its principal research officers should include the best trained minds in the country in the field of monetary economics. Furthermore, as the economists at the Federal Reserve Banks contribute through their various duties to the formulation of System policy, this is of special importance.

Generally speaking, it is the Board's feeling that either the officer in charge of research or his senior associate should be a man of outstanding qualifications and reputation in that field. We sense from your letter that the staffing plans you have in mind credit this viewpoint and that every opportunity will be taken to develop your research organization along lines that will insure its most effective contribution to your Bank and the Federal Reserve System.

The exchange of views initiated by your letter is welcomed.

Messrs. Thurston and Noyes then withdrew from the meeting.

Prior to this meeting there had been circulated to the available members of the Board alternative drafts of letters relating to the request of the Grosse Pointe Bank, Grosse Pointe, Michigan, for permission to establish a branch at 630 St. Clair Avenue in Grosse Pointe. One of the drafts would state that after considering all available information the Board of Governors concurred in the favorable recommendation of the Federal Reserve Bank of Chicago and therefore approved the establishment of the branch, subject to the provisions (a) that the branch be established within one year, and (b) that plans presently under way to increase the bank's capital structure by $337,500 through the sale of additional common stock be consummated on or before December 31, 1954. The other draft, prepared in the form of a letter to Mr. Diercks, Vice President of the Federal Reserve Bank of Chicago, reflected the views of Governor Robertson and read as follows:

> Reference is made to your letter of June 2, 1954, submitting the request of the Grosse Pointe Bank, Grosse Pointe, Michigan, for permission to establish a branch at 630 St. Clair Avenue in Grosse Pointe, Michigan.
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> In considering the request, the Board of Governors has given due consideration to the bank's stated desire to relieve congestion in its main office, but notes that the branch now in process of being established at 93 Kercheval Avenue in Grosse Pointe Farms is only eight-tenths of a mile from the proposed location at 630 St. Clair Avenue. It would appear that the opening of this branch would relieve some of the pressure on present facilities. Consideration has also been given to the statement that another purpose in proposing the new branch is to enable the bank to maintain its competitive position in the area. However, it appears that the bank actually has no competition in the area.
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> The Board is in agreement with the statement contained in your memorandum of June 2, 1954, that the soundness of establishing three offices in such close proximity is questionable, and it is not inclined to approve the bank's request at this time.
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> Perhaps at a later date, after there has been an opportunity to observe the results of the operation of the branch presently being established and its effect upon the main office congestion, the matter may be again reviewed, if the bank so desires at that time.

Governor Robertson stated reasons why he favored the approach set forth in the above draft of letter, drawing upon information contained in a memorandum from the Division of Examinations dated June 15, 1954, and information submitted to the Board with Mr. Diercks' letter of June 2, 1954.

At the conclusion of a discussion based upon Governor Robertson's comments, unanimous approval was given to a letter to Mr. Diercks in the form set forth above.

Prior to this meeting there had been circulated to the available members of the Board a memorandum from Mr. Sloan dated June 29, 1954, discussing a proposal of The Pennsylvania Company for Banking and Trusts, Philadelphia, Pennsylvania, submitted through the Federal Reserve Bank of Philadelphia, under which the proportion of the risk assumed by the Bank's wholly-owned affiliate, Colonial Surety Company, on automobile insurance would be increased from 10 per cent to 20 per cent. The memorandum referred, among other things, to the fact that in late 1950 the Federal Reserve Bank of Philadelphia advised the Board that the Colonial Surety Company had commenced the issuance of fire, theft, and collision insurance on automobiles on April 1, 1950, the insurance written being confined to vehicles financed by the bank and 90 per cent of the risk being reinsured by the Indemnity Insurance Company of North America. After consideration of the matter, the Board advised the Reserve Bank on March 7, 1951, that although it had a well-established policy against permitting member banks to engage in the insurance business, except as agent, and although it did not look with favor on the practice of member banks engaging in business indirectly through an affiliate which the bank would not be permitted to engage in directly, the Board would not require the affiliate to terminate its activities in this case since it appeared that liability on the part of the bank was extremely remote and that the risk to the affiliate was not disproportionate to the amount of its capital structure. On March 3, 1952, in response to a request from the member bank, the Board interposed no objection to a slight extension of the insurance operations of the Colonial Surety Company, but again stated that it questioned seriously the propriety of a member bank's engaging, directly or indirectly, in the insurance business.

Mr. Sloan's memorandum also referred to a discussion which Governor Robertson and members of the Board's staff had on June 24, 1954, with Mr. William F. Kelly, Executive Vice President of The Pennsylvania Company for Banking and Trusts, at which time Governor Robertson stated the Board's policy, but advised that the matter would be submitted for consideration by the Board and said that if it appeared that the Board was not favorably inclined toward the proposal, Mr. William F. Kurtz, Chairman of the Board of the member bank, would be notified and given an opportunity to make such further representations as he might wish.

While the recommendation of the Federal Reserve Bank of Philadelphia was that the current proposal be given favorable consideration, it was the recommendation of the Division of Examinations that the proposal not be approved. Accordingly, there was attached to Mr. Sloan's memorandum a draft of letter to the Reserve Bank to that effect. The memorandum suggested, however, that the letter not be forwarded until

Mr. Kurtz had had an opportunity to make further representations after receiving informal advice of the Board's tentative position.

Following a statement by Governor Robertson that he concurred in the recommendation of the Division of Examinations, the other members of the Board indicated that they agreed with his position. It was understood, therefore, that Governor Robertson would call Mr. Kurtz on the telephone, advise him informally that it did not appear that the proposal would be approved, and inquire whether he wished to visit the Board's offices for a further discussion of the matter.

Secretary's Note: Subsequently, Governor Robertson advised that he had discussed the matter with Mr. Kurtz by telephone, and that on the basis of the discussion Mr. Kurtz stated that The Pennsylvania Company for Banking and Trusts would withdraw its request and would so notify the Board through the Federal Reserve Bank of Philadelphia.

At this point Governor Mills withdrew from the meeting to keep another appointment. Mr. Sloan also withdrew from the meeting at this point.

Chairman Martin referred to the discussion at the meeting of the Board on June 17, 1954, regarding a letter dated June 10 in which Mr. Albert M. Cole, Housing and Home Finance Administrator, invited him to attend a meeting on June 18 to discuss the voluntary home mortgage credit program which would be authorized by the housing bill now pending in the Congress. At that time Mr. Riefler was authorized to attend the June 18 meeting as the Board's representative, with the understanding that he would make no statement which would in any way commit the Board with respect to the voluntary program.

Chairman Martin stated that last week a committee from the Mortgage Bankers Association called upon him and presented reasons why it would be difficult for the regional subcommittees which were to be established under the voluntary program to operate effectively in some areas unless the Federal Reserve Banks would provide facilities for meetings at the Reserve Banks. Chairman Martin said that he gave the group no encouragement, but told them he would bring the matter to the attention of the Board. He also stated that Mr. Cole had indicated that he would like to call upon him this afternoon, presumably for the purpose of discussing possible cooperation by the Federal Reserve System in the administration of the voluntary program.

The matter was discussed and, although it was the general view of the members of the Board present that it would be preferable for the Federal Reserve System not to become actively involved in the voluntary home mortgage credit program in any way, no definite conclusions were reached.

Reference was made to a letter addressed to Chairman Martin under date of July 2, 1954, by Mr. Glenwood J. Sherrard, Assistant Director for Stabilization, Office of Defense Mobilization, in which Mr. Sherrard invited the Board to participate in an inter-agency meeting called for the purpose of establishing an Inter-Agency Stabilization

Committee, the functions of which would be to discuss problems of stabilization which might arise under different emergency contingencies, to receive and make recommendations with respect to particular programs, and to serve as a means of communicating developments in this field to interested department heads.

Following a discussion, the following reply from Chairman Martin to Mr. Sherrard was approved unanimously:

This letter is in response to yours of July 2, 1954, relating to the establishment of a special inter-agency committee to serve as a focal point for contact with ODM on stabilization problems.

Governor Robertson will attend the meeting on July 14 and will represent the Board of Governors on matters in which the Board is interested.

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

Memorandum dated July 2, 1954, from Mr. Marget, Director, Division of International Finance, recommending that the resignation of Edward Ames, Economist in that Division, be accepted effective August 28, 1954.

Approved unanimously.

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

In accordance with the request contained in your letter of July 1, 1954, the Board of Governors approves the designation of the following as special assistant examiners for the Federal Reserve Bank of New York:

Richard J. Collins
Charles S. Fleet
Richard A. Lillquist
Fred B. Whittemore

Approved unanimously.

Letters to Mr. Young, Chairman, Conference of Presidents of the Federal Reserve Banks, c/o Federal Reserve Bank of Chicago, reading as follows:

This refers to the action taken by the Conference of Presidents at its meeting on June 21-22, 1954, approving amendments to the Loss Sharing Agreement of the Federal Reserve Banks, as recommended by the Insurance Committee in its report of May 7, 1954, revising the "Whereas" clauses and revising section 1(A) of Exhibit A to the Agreement so as to include shipments of currency and coin to and from member banks in Alaska and Hawaii.

The Board has approved these amendments to the Loss Sharing Agreement. In this connection, the Board has received from the Chairman of the Insurance Committee a proposed revision of the Loss Sharing Agreement, a copy of which is enclosed herewith, which would include these amendments as well as the amendment adopted effective April 17, 1952, with respect to war risk losses; and a revision of the Agreement in this form is acceptable to the Board.

It is understood that you will furnish copies of the revised Agreement to the Federal Reserve Banks for execution and that each Reserve Bank will then forward a duly executed counterpart original of the revised Agreement to the Board. When executed counterparts have been received from all Federal Reserve Banks, the Board will so notify the Reserve Banks by wire and, as provided in Section XIV of the Agreement, the revised Agreement will become effective as of the date of such notice.

At its meeting on March 1, 1954, the Presidents' Conference approved a recommendation by the Committee on Miscellaneous Operations that each Federal Reserve Bank review its present currency and coin services to member and nonmember banks in order to determine if more uniformity in such services should be achieved.

The Board is of the opinion that this is an important matter. It is recognized, of course, that--because of differences in available transportation facilities, in the geographical concentration of banks, and in other factors--there are certain situations where complete similarity of services would be impracticable. On the other hand, it would seem that in some instances the existing variations would be hard to defend on a System basis.

The Board would appreciate it if you would initiate the designation of an appropriate committee, or subcommittee, of the Presidents' Conference which would assemble information showing (a) the full extent of the variations among the Reserve Banks with respect to currency and coin services; (b) the local situations or other reasons for practices which vary significantly from those of other Banks; and (c) the objections--if any--to changes in the direction of greater similarity. The Board would urge that the committee complete this task as promptly as convenient with the thought that on the basis of the information developed the committee could recommend guiding principles which all Federal Reserve Banks might follow in connection with their currency and coin services.

Although the committee of which Governor Robertson is Chairman contemplates taking no action on this matter pending the completion of the proposed study, he will be glad to confer with the proposed new committee at any time that it might wish.

Approved unanimously.

Letter to the Home Loan Bank Board, First Street and Indiana Avenue, Washington, D. C., reading as follows:

Recently two examples of advertising media issued by Savings and Loan Associations have been brought to the attention of the Board of Governors.

A pamphlet issued by the Second Federal Savings and Loan Association of Cleveland, Ohio, contains a heading in bold type on page 12: "Member of a Reserve Banking System".

A small address and memorandum booklet issued by the Hancock Savings and Loan Co., Findlay, Ohio, bears on its face the caption: "Members of The Federal Banking System".

It is clear that the use of the words "reserve banking system" and "Federal banking system" will result in misunderstanding since they will convey the impression that the institutions issuing statements containing these terms are members of the Federal Reserve System. The Board of Governors questions the advisability of advertising of this kind and would appreciate the views of the Home Loan Bank Board as to whether any steps can be taken to bring about the discontinuance of statements of this nature.

Approved unanimously.

Memorandum dated July 2, 1954, from the Division of Personnel Administration recommending, for reasons stated, that the Board take no action to prevent the continuation under the Board Plan of the Retirement System of the Federal Reserve Banks of the benefits provided for retired Civil Service employees by Senate Bill 2968, 82d Congress, from July 1, 1954, through June 30, 1955.

Approved unanimously.

Secretary