

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

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Leonard, Director, Division  
of Bank Operations  
Mr. Vest, General Counsel

Mr. Persina, Consulting Architect  
to the Board

The following requests for authority to travel on official business for the Board were presented:

<u>Name and title</u>	<u>Duration of travel</u>
Mr. Vest, General Counsel	October 17-23, 1954
Mr. Hackley, Assistant General Counsel	October 17-23, 1954

To travel to Minneapolis, Minnesota, to attend a meeting of a legal subcommittee of the Presidents' Conference engaged in drafting a revision of the Loss Sharing Agreement of the Federal Reserve Banks.

Mr. Sloan, Director, Division of Examinations	October 12-15, 1954
Mr. Masters, Assistant Director, Division of Examinations	October 12-15, 1954
Mr. Benner, Assistant Director, Division of Examinations	October 12-15, 1954

To travel to Raleigh, North Carolina, to attend the annual convention of the National Association of Supervisors of State Banks and to hold the usual meeting of representatives of the Federal Reserve Banks attending the convention.

Approved unanimously.

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At the meeting of the Board on August 10, 1954, consideration was given to preliminary plans and specifications for a new Louisville Branch building which had been submitted by the Federal Reserve Bank of St. Louis. In view of questions raised concerning the design and size of the proposed structure, and materials intended to be used in its construction, it was agreed that representatives of the Reserve Bank should be invited to meet with the Board at some mutually convenient time to discuss these matters. Subsequently, this meeting was arranged for Friday, September 17, 1954.

In preparation therefore, Mr. Leonard and Mr. Persina reviewed the various questions which had been raised and responded to inquiries made by members of the Board. No conclusions were reached, it being understood that a final decision by the Board would await the outcome of the discussion tomorrow.

Messrs. Leonard and Persina then withdrew from the meeting and Messrs. Riefler, Assistant to the Chairman, Young, Director, Division of Research and Statistics, and Youngdahl, Assistant Director, Division of Research and Statistics, entered the room.

Prior to this meeting there had been sent to each member of the Board a copy of a memorandum from Mr. Young dated September 10, 1954, submitting a memorandum which had been drafted by the Board's staff at the request of the staff of the Council of Economic Advisers to assist

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the staff of the Council in preparing the forthcoming annual report of the President which was to have as its theme economic stability and growth.

In response to Chairman Martin's request for a statement on the background of this matter, Mr. Young said that during the summer of this year a letter was received from a member of the staff of the Council of Economic Advisers asking whether the Board's staff would prepare a series of memoranda on a number of economic subjects for the use of one of the Council's task forces. Mr. Young said that in his absence Messrs. Riefler and Noyes, after checking with Chairman Martin, discussed the request with the staff member of the Council and indicated that the preparation of such a series of memoranda would represent a burden which the Board's staff was not in a position to undertake. Thereafter, Mr. Young said, the staff of the Council brought up the subject of the President's annual report, indicating that the theme of the report might be economic growth and stability and inquiring whether the Board's staff would inform them as to the problems in the area of private finance to which they should give attention and study. Other government agencies had received similar requests pertaining to their fields of interest. Mr. Young went on to say that the Board's staff considered that it would be worth while to furnish a memorandum indicating some of the basic problems to assist the staff of the Council in its further work on the report.

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There followed a discussion of the basis on which a document of the type submitted by Mr. Young should be transmitted to parties outside the Board and of the material in the memorandum which raised questions in the minds of the members of the Board. In connection with the matter of the basis of transmittal, Chairman Martin expressed the point of view that documents of this type, having policy implications, should not be transmitted by the staff without having been brought to the attention of the Board, although such a procedure would not mean that the Board necessarily would endorse the staff document. The other members of the Board present indicated that they concurred in the views expressed by Chairman Martin.

At the conclusion of the discussion it was agreed unanimously that the memorandum should be transmitted to the staff of the Council of Economic Advisers as a memorandum from the Board's staff after all of the members of the Board who so desired had discussed with Mr. Young any suggestions which they had for editorial or other changes.

Mr. Young then reported that Mr. Neil Jacoby, speaking for all of the members of the Council of Economic Advisers had advised that in the forthcoming economic report of the President, the Council intended to develop a chapter or two with respect to the recent operation of monetary and credit policy and how that policy might properly be used in an over-all program designed to promote economic stability. He said

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that Mr. Jacoby asked whether the Board's staff would prepare materials which might be helpful to the Council in developing that part of the report. He also said it was the view of the Board's staff that this request should be complied with; if it were not, the result might be that the draft prepared by the Council would be submitted to the Board's staff for review and would require considerable editing.

There followed a brief discussion of the workload devolving upon the Board's research staff as a result of matters such as those referred to by Mr. Young and the survey request recently received from the Congressional Joint Subcommittee on Economic Statistics. It was understood, in connection with the last-mentioned item, that as soon as possible Mr. Young would present to the Board a statement as to how the study might be approached and what assistance in the form of outside consultants or additional staff might be required.

Messrs. Young and Youngdahl then withdrew from the meeting and Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

At the meeting on September 10, 1954, the Board considered a request by Mr. Theodore E. Fletcher, Sr., a Board-appointed director of the Baltimore Branch, for a ruling on the question whether his service as a director of a newly-organized Federal savings and loan association would affect his eligibility to serve as a branch director. The Board took the position that as a matter of policy a Board-appointed branch director should not serve at the same time as a director of a bank or

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savings and loan association, but in view of the circumstances in Mr. Fletcher's case it was agreed that there would be no objection to his serving as a director of the new savings and loan association until January 1, 1955. The Board at that time requested the Secretary to convey its views to Mr. Fletcher through the Federal Reserve Bank of Richmond.

Mr. Carpenter reported at this meeting that according to advice received through the Richmond Bank, the savings and loan association in which Mr. Fletcher was interested would not complete its organization until December and would not open for business until the very end of this year. Accordingly, it had been suggested by the Reserve Bank that it would enable Mr. Fletcher to meet the commitments which he had made with respect to the new organization if he might be permitted to hold office as a director for a reasonable period after its opening, not in excess of six months from the opening date. By way of precedent Mr. Carpenter noted that in the past the Board had from time to time permitted branch directors who became directors of commercial banks during their tenure of office as branch directors to serve in both positions until the end of the current year.

After a discussion, unanimous approval was given to a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, in the following form:

This letter is in reference to yours of August 24, 1954, with respect to the proposed service by Mr. Theodore E. Fletcher, Sr., a Director of the Baltimore Branch, as a director of a

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new Federal savings and loan association. The information contained in your letter and its attachments was considered by the Board and you were subsequently advised of the Board's view that a director of a branch of a Federal Reserve Bank appointed by the Board of Governors should not serve at the same time as a director of a savings and loan association, but that because of the circumstances in this case the Board would have no objection to Mr. Fletcher serving as a director of the new organization until January 1, 1955.

In a telephone conversation earlier this week, Mr. Wayne stated that the solution proposed by the Board would not meet the situation since the organization meeting of the new savings and loan association would not be held until sometime in December and the organization would not be completed and the charter granted until later, with the result that the association was not expected to open for business until toward the end of December. He also said that the suggestion had been made that it would enable Mr. Fletcher to meet the commitments which he had made with respect to service to the new organization before he became a Director of the Baltimore Branch if, while adhering to its position that a director of a branch of a Federal Reserve Bank appointed by the Board should not serve at the same time as a director of a savings and loan association, the Board would not object to Mr. Fletcher serving the new organization for a reasonable period after its opening but not to exceed six months from the opening date.

This suggestion has been considered by the Board and it will be appreciated if you will advise Mr. Fletcher that, in all the circumstances, the Board will interpose no objection to his serving as a director of the savings and loan association for this temporary period while continuing as a Director of the Baltimore Branch.

The meeting then recessed and reconvened in the Board Room at 2:30 p.m. with the same attendance as at the close of the morning session except that Messrs. Solomon, Assistant General Counsel, Cherry, Legislative Counsel, and Molony, Special Assistant to the Board, also were present.

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At this meeting there was an informal discussion of the Federal Employees' Group Life Insurance Act of 1954, the question of its applicability to the Board, and the related questions which would be involved should it be found that the act was or was not applicable to the Board's organization. No conclusions were reached, it being understood that a decision would not be made until after further discussion next week when all of the members of the Board were present.

During the course of the discussion Mr. Vest summarized the reasons why it was the unanimous view of the Board's legal staff that the Act was applicable to the members and employees of the Board. His statement was based on a memorandum from the Legal Division dated August 26, 1954, copies of which had been sent to the members of the Board. Mr. Carpenter reviewed the points covered in his memorandum of September 1, 1954, which presented reasons that might be given for resolving the doubt referred to in the memorandum from the Legal Division in favor of a decision that the law was not applicable to the Board's staff. Copies of this memorandum also had been submitted to the members of the Board. At the conclusion of the discussion it was understood that the Legal Division would ascertain what position with respect to the applicability of the new law was being taken by certain other agencies of the Government including the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Tennessee Valley Authority.



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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 Governors Mills and Miller present:

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

Letter to Mr. Newman, Assistant Vice President, Federal Reserve Bank of Chicago, reading as follows:

In reference to your letter of August 26, 1954, the Board approves the payment of salary to Engineers and Firemen at rates up to \$5,886.40 and \$5,096.00 respectively, these being the rates set forth in the most recently effected agreements between the Building Managers' Association of Chicago and the Engineers' and Firemen's unions in that city. It is noted that these rates exceed the maximums of the grades in which the positions are classified by \$116.40 and \$306.00 per annum respectively.

This approval is made in accordance with the Board's letter of February 18, 1954, which stated that after Board review of new contracts between the Building Managers' Association of Chicago and certain specified unions, approval would be given to your Bank to pay salaries up to those rates without further reference to the Board.

Approved unanimously.

Letter to The Uncas-Merchants National Bank of Norwich, Norwich, Connecticut, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary

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capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Connecticut. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Uncas-Merchants National Bank of Norwich is now authorized to exercise will be forwarded to you in due course.

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

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

Reference is made to your letter of September 9, 1954, submitting the request of The New York Trust Company, New York, New York, for an extension of time within which it may establish a branch at 205 East 42nd Street, New York, New York.

It is noted that, although the applicant bank has signed a lease for the branch premises, it has been unable to obtain possession due to a delay in relocating the present tenant. It is understood that the matter has now been resolved and that the bank will take possession about the end of October; however, the remodeling of the premises for banking purposes will require a few months longer.

On the basis of the information submitted and in accordance with your recommendation, the Board of Governors extends to May 12, 1955, the time within which the subject bank may establish a branch at the location stated above.

Approved unanimously.

Letters to Mr. Armistead, Vice President, Federal Reserve Bank  
of Richmond, reading as follows:

The Board of Governors of the Federal Reserve System has considered the recommendation of your Bank,

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contained in your letter of September 8, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Mechanics and Merchants Bank, Richmond, Virginia, to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

Please advise the bank of the Board's action in this matter, calling attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

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In view of the circumstances outlined in your letter of September 10, 1954, and the Reserve Bank's favorable recommendation, the Board of Governors further extends until March 30, 1955, the time within which Mechanics and Merchants Bank, Richmond, Virginia, may establish an in-town branch at 3415 Hull Street.

Approved unanimously.

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

Reference is made to your letter of September 7, 1954, submitting request of the State Bank of Freeport, Freeport, Illinois, for permission to increase its investment in bank premises to an amount \$23,411.48 in excess of the capital stock of the bank.

The Board approves the investment in bank premises in an amount not to exceed \$323,411.48. It is understood that the allocation of remodeling costs will result in bank premises being reduced on the bank's books to an amount that is less than the \$300,000 capital stock of the bank.

Approved unanimously.

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Letter to the Board of Directors of the First State Bank, Britt, Iowa, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago. The letter also contained the following special paragraphs:

The Board of Governors also approves the retention by the bank of its branch at Woden, Iowa.

In connection with condition of membership numbered 2 above, consideration has been given to the fact that the adjusted capital structure of the bank has decreased slightly since December 31, 1952. The failure of the bank to increase its capital funds from earnings due to the liberal policy with respect to the payment of salaries, bonuses and dividends has been the subject of correspondence between the Federal Reserve Bank of Chicago and your institution, and due consideration has been given by the Board of Governors to the statement contained in letter of President F. A. Rummel dated August 31, 1954, to the effect that, if the bank's income is not sufficient to meet expenses and at the same time provide adequate capital and reserves, expenses will be reduced.

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

Letter to Mr. A. J. Gock, Chairman of the Board of Directors, Bank of America, New York, New York, reading as follows:

This will acknowledge receipt of a letter dated August 6, 1954 from Executive Vice President Russell G. Smith in reply to the Board's letter of July 19, 1954 with further reference to the report of examination of Bank of America, New York made as of December 4, 1953.

The Board has noted the comments as to the actions taken with respect to each recommendation and suggestion

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made by the examiner on page 16 of the report. From the excerpt enclosed of the resolution adopted at the meeting of the Board of Directors on January 19, 1954 with regard to salaries of officers, it is not entirely clear that the minutes include specific approval of the salary authorized for each officer. It is the position of the examiner, in which the Board concurs, that the salary authorized for each officer should be specifically stated in the minutes of the Board of Directors or that the minutes should incorporate by reference an identifiable memorandum or record, maintained in the Secretary's files at the Home Office, which specifically states the salary established for each officer.

The Board very much appreciates the detailed information which you have furnished with respect to the clients with domestic addresses listed on pages 71-75 of the report of examination. Although your letter stated that you were attaching a schedule of the accounts listed on pages 70-75 of the examiner's report, a schedule was not received showing information regarding the accounts listed on page 70. It appears from the information furnished that various accounts would not conform to the views indicated in the Board's letters of April 23, 1954, and July 19, 1954. However, the information furnished will be helpful to the Board in the further consideration of the problem of what are appropriate and inappropriate activities for an Edge Bank.

In this connection, however, the Board regrets to note that your letter did not include a statement as to your general policy with respect to the receipt of deposits from domestic clients, and the payment of checks drawn thereagainst, and the procedure you plan to establish to assure that deposit and withdrawal activities will be operated within the scope of such institutional policy and the requirements of Regulation K. This statement was requested in the Board's letter of April 23, 1954 and also included in the quoted portion of that letter contained in the Board's letter of July 19, 1954. It would seem that such a statement, based on your operations to date, might be especially helpful to the Board in the formulation of a supervisory policy regarding receipt of deposits in the United States.

Your comments regarding the activities of your bank in handling Italian bonds and coupons and the loan to

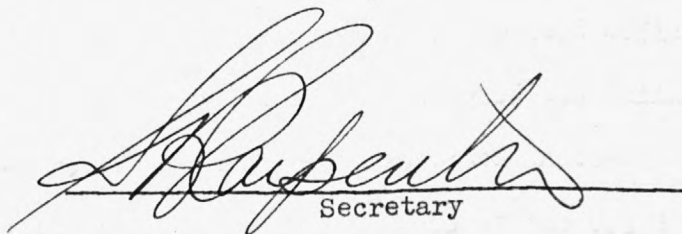
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I. F. E. Italian Films Export (U. S. A.) Inc., have been noted. With respect to these matters, as well as the whole question of the deposit activities of your bank, the Board will defer action until it has had an opportunity to review the recommendations of the Special Committee on Foreign Operations of American Banks which has been considering, among other things, activities that are appropriate and inappropriate for Edge Banks.

The Board wishes to acknowledge with appreciation the assistance given by Mr. Smith and other officers of your bank during their conference with the Special Committee. While it is not contemplated at this time that any distribution will be made of the Committee's report, the helpful cooperation of the participating bankers should prove useful to the Board in the consideration of problems related to the foreign operations of American banks.

Approved unanimously, with  
copies to the Federal Reserve  
Banks of New York and San Francisco.



Secretary