

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

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

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Thomas, Economic Adviser to the Board
 Mr. Marget, Director, Division of International Finance
 Mr. Dembitz, Assistant Director, Division of International Finance
 Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance
 Mr. Olson, Economist, Division of International Finance

The following members of the staff of the Division of Research and Statistics also were present:

Mr. Young, Director
 Mr. Garfield, Adviser on Economic Research
 Mr. Williams, Assistant Director
 Mr. Noyes, Assistant Director
 Mr. Youngdahl, Assistant Director
 Mr. Gehman, Chief, Business Conditions Section
 Mr. Koch, Chief, Banking Section
 Mr. Weiner, Chief, National Income, Moneyflows, and Labor Section
 Mr. Simpson, Acting Chief, Business Finance and Capital Markets Section
 Mr. Wernick, Economist
 Mr. Wood, Economist

The staff of the Division of Research and Statistics presented a review of current business and economic developments.

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Following a discussion based on this review, all of the representatives of the Division of Research and Statistics except Mr. Noyes withdrew and Mr. Vest, General Counsel, entered the room.

Chairman Martin suggested that at the meeting of the Board on Monday, October 11, 1954, Mr. Marget discuss developments in connection with the recent Federal Reserve gold loan to Banco do Brasil and that at the same meeting members of the staff of the Division of International Finance report on current international financial developments. The other members of the Board agreed with these suggestions.

Messrs. Marget, Dembitz, Tamagna, and Olson then withdrew from the meeting.

Chairman Martin referred to Governor Szymczak's report at yesterday's meeting of the Board regarding his telephone conversation with Mr. Cole, Administrator of the Housing and Home Finance Agency, concerning the use of conference space at Federal Reserve Banks and branches by regional subcommittees established under the Voluntary Home Mortgage Credit Program. He then presented a letter from Mr. Cole dated October 6, 1954, requesting that fifteen regional subcommittees having their headquarters in Federal Reserve Bank and branch cities be permitted to meet at the Federal Reserve buildings in those cities periodically. In his letter, Mr. Cole stated that no aid would be asked "with regard to staff or office quarters".

Mr. Noyes stated that he had talked to Mr. Riefler, the Board's advisory representative on the National Voluntary Mortgage Credit Extension

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Committee, before the latter went on vacation, that Mr. Cole had inquired of Mr. Riefler regarding the possibility of obtaining assistance limited to the use of facilities for meetings, and that Mr. Riefler replied that the Board had taken no action on the matter and that in his opinion Mr. Cole should restrict any request to the use of conference space at Federal Reserve Bank buildings.

Following a discussion, Chairman Martin said that in view of the limited nature of the request he felt that the Federal Reserve System should accede to it. It was his view that the Federal Reserve Banks should not be directed to comply, but that the Board might notify the Federal Reserve Bank Presidents that it would have no objection to their making space available for the subcommittee meetings if such arrangements were feasible.

Thereupon, unanimous approval was given to a reply from Chairman Martin to Mr. Cole in the following form:

This will acknowledge your letter of October 6 regarding arrangements for the regional subcommittees for the Voluntary Home Mortgage Credit Program to obtain the use of conference space periodically in certain of the Federal Reserve Banks and branches.

The Board is today transmitting a copy of your letter to the Presidents of the Federal Reserve Banks and is advising the Presidents that it would have no objection to their complying with your request to the extent feasible. It is noted that your regional representatives in various parts of the country will approach the Federal Reserve Bank Presidents with their requests for the use of conference space.

Unanimous approval also was given to a letter to the Presidents

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of all Federal Reserve Banks in the following form:

There is enclosed for your information a copy of a letter dated October 6, 1954, from Mr. Albert M. Cole, Housing and Home Finance Administrator, to Chairman Martin regarding arrangements for the regional subcommittees for the Voluntary Home Mortgage Credit Program to obtain the use of conference space periodically in certain Federal Reserve Banks and branches. There is also enclosed a copy of Chairman Martin's reply, from which you will note that the Board would have no objection to compliance by the Federal Reserve Banks with Mr. Cole's request to the extent that it is feasible for the Reserve Banks to do so.

Messrs. Thomas and Noyes then withdrew from the meeting.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approved the establishment without change by the Federal Reserve Bank of St. Louis on October 4, by the Federal Reserve Banks of Kansas City and San Francisco on October 6, and by the other eight Federal Reserve Banks on October 7, 1954, of the rates of discount and purchase in their existing schedules.

Following a statement by Mr. Sherman concerning the procedures on the part of the Federal Reserve Banks and the Board relative to the reestablishment of rates of discount and purchase, the telegrams were approved unanimously.

In connection with the foregoing item, it was understood that in the future incoming telegrams and the proposed replies would not be circulated to the members of the Board prior to the meeting of the Board each

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Friday but that the matter would be presented for consideration at the meeting.

At this point Mr. Sloan, Director, Division of Examinations, entered the room.

Reference was made to the request of the Comptroller of the Currency for a recommendation as to whether an application to organize a national bank in Katy, Texas, should be approved. The Federal Reserve Bank of Dallas, on the basis of an investigation of the application, concluded that the proposed capital structure would be adequate, that the management would be satisfactory, but that earnings prospects were unfavorable and that, although establishment of a bank would be a convenience to the community, it seemed doubtful that a sufficient volume of business existed to support the claim that the bank was needed. In view of the over-all picture, the Federal Reserve Bank suggested that the Board recommend unfavorably to the Comptroller of the Currency.

Although recognizing the borderline basis of the case, the Division of Examinations suggested a favorable recommendation by the Board and a draft of letter to that effect had been prepared by the Division. In the course of circulation to the members of the Board a change in the language of the draft was made at the suggestion of Governor Balderston, and a revised draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency), reading as follows was presented for consideration at this meeting:

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Reference is made to a letter from your office dated July 26, 1954, enclosing photostatic copies of an application to organize a national bank at Katy, Texas, and requesting a recommendation as to whether the application should be approved.

Based upon information developed in an investigation of the application made by an examiner for the Federal Reserve Bank of Dallas, it appears that the proposed capital structure and management of the bank would be satisfactory. It also is clear that the bank would be a convenience to the inhabitants of this community, although there is doubt as to whether there is a real need for its establishment, and there is a question whether sufficient business is available to permit profitable operations. However, after considering all of the circumstances, the Board recommends approval of the application.

The Board's Division of Examinations will be glad to discuss this case with representatives of your office, if you so desire.

Governor Balderston stated that the change in wording which he suggested had been made because the original draft might imply that the Board was recommending approval of the application almost solely on the basis of convenience to the community, and in spite of doubt as to whether the bank would be successful.

Governor Mills said that this appeared to him to be a very marginal situation. He went on to say that he had a great deal of sympathy for Governor Vardaman's philosophy that the Board should avoid a paternalistic attitude in carrying out its functions in the field of bank supervision, and that where, as in this case, a group of responsible persons was willing to supply adequate capital to enter the banking business, he felt that they should be encouraged. However, the banking opportunities in the community seemed doubtful enough to raise a question whether the Board should encourage the Comptroller of the Currency to grant the requested charter.

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Governor Miller referred to the difficulties experienced by many small banking institutions in the 1930s and, after noting the considerable doubt expressed by the Federal Reserve Bank of Dallas, said that in his opinion the Board should look very carefully at cases of this kind.

In explaining the decision of the Division of Examinations to suggest a favorable recommendation, Mr. Sloan referred to the substantial amount of business of a Houston bank coming from the Katy area and pointed out that the proposed stockholders of the national bank were persons of considerable means. He noted that the community appeared to be a prosperous one and said that if the proposed stockholders alone gave their business to the local bank, it probably could operate successfully.

Governor Robertson brought out that much of the difficulty in the 1930s resulted from communities being over-banked, a circumstance which would not prevail in this case since there was no other bank in the community. He also mentioned the resources of the organizers and proposed stockholders and the fact that banking services were not available on a convenient basis. He further noted that no other institution would be jeopardized by the establishment of the national bank although some out-of-town banks would, of course, lose some deposits. While he recognized that the over-all situation made this a borderline case, it was his view that in a case of this kind the Board should lean toward supporting people willing to put up the necessary capital.

After a further discussion of the facts, during which reference was made to the distance from Katy to the nearest banking offices, Chairman

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Martin made a statement in which, after referring to the problems posed by the Board's regulatory responsibilities, he said that as a general rule he would resolve doubtful cases in favor of allowing people to enter the banking business if they desired and if they were financially responsible.

Following further discussion, during which the members of the Board who had raised questions stated that they had no strong objection to the proposed recommendation and merely wanted full consideration in view of the marginal nature of this case, the letter to the Comptroller of the Currency was approved in the form set forth above.

The following matters were presented and action taken as indicated:

Letter to the Board of Directors, Chemical Bank & Trust Company, New York, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the operation of branches by the Chemical Bank & Trust Company, New York, New York, at the following locations:

Borough of Manhattan-

Northwest Corner of William and Beaver Streets
West Side of Lafayette Street, Corners of Astor

Place and East 8th Street

1146 St. Nicholas Avenue

Southwest Corner of Broadway and Spring Street

Northeast Corner of Canal and Varick Streets

196-198 Park Row and 200-202 Worth Street

Northeast Corner of Columbus Avenue and 81st
Street

155-157 East 42nd Street

375 Grand Street

1242 Second Avenue

124-126 East 86th Street

Northwest Corner of Avenue D and East 10th Street

Northwest Corner of Fifth Avenue and 20th Street

1724/28 Broadway

303 West 42nd Street and 669 Eighth Avenue

Northwest Corner of Fourth Avenue and 29th Street

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49/53 Fulton Street
1-3 East 42nd Street
102/106 West 126th Street and 311 Lenox Avenue
101-103 West 72nd Street and 260/268 Columbus Avenue
Northwest Corner of Lexington Avenue and 60th Street
1934-36 Broadway
3205-09 Broadway, on the northwest corner of Broadway
and 125th Street
Northwest Corner of Park Avenue and 125th Street
Northeast Corner of Broadway and 91st Street
Northwest Corner of St. Nicholas Avenue and 181st
Street
77/81 West 104th Street
Northwest Corner of Broadway and 102nd Street
543-545 West 110th Street (Cathedral Parkway)
Northwest Corner of Park Avenue and 52nd Street
In the New York Terminal of the Pennsylvania Railroad
Company located on Seventh Avenue between 31st and
33rd Streets
Northwest Corner of Rector and Washington Streets
Southeast Corner of 14th Street and Seventh Avenue
Northeast Corner of 72nd Street and Lexington Avenue
Southwest Corner of Grove and 4th Streets
Southwest Corner of First Avenue and 57th Street
Northwest Corner of Church and Dey Streets
Southeast Corner of Fifth Avenue and 36th Street
Southeast Corner of Broadway and 28th Street
513 West 207th Street (corner of Post Avenue and
West 207th Street)
Northeast Corner of Fourth Avenue and 17th Street
2900/2904 Broadway
265-267 Broadway
South Side of West 143rd Street, Corners of Amsterdam
Avenue and Hamilton Place
Northeast Corner of Broadway and 81st Street
57-59 West 86th Street
4186 Broadway
Southeast Corner of Barclay and West Streets
Northwest Corner of York Avenue and East 86th Street
Borough of the Bronx-
375 East 149th Street
Northeast Corner of Jerome and Burnside Avenues
1308/12 East Gun Hill Road
Northwest Corner of Fordham Road and Decatur Avenue

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Southwest Corner of East Kingsbridge Road and
Creston Avenue

1309 Clinton Avenue

Northeast Corner of 170th Street and Jerome Avenue

3741/45 Riverdale Avenue

Northeast Corner of Arthur Avenue and Tremont Avenue

Northwest Corner of Broadway and West 231st Street

Borough of Brooklyn-

6629/33 Bay Parkway

188-90 Montague Street

33-35 Flatbush Avenue

Southeast Corner of Manhattan Avenue and Greenpoint
Avenue

Southwest Corner of Myrtle Avenue and Broadway

397/401 Flatbush Avenue

79 Hamilton Avenue

725 Grand Street

Borough of Queens-

31-05/09 30th Avenue, Astoria

103-02 Northern Boulevard

1912 Mott Avenue, Far Rockaway

40-23 Main Street, Flushing

Southeast Corner of Continental Avenue and Austin
Street, Forest Hills

Northwest Corner of Roosevelt Avenue and 82nd Street
(formerly 25th Street), Jackson Heights

Southeast Corner of Archer Avenue and Sutphin Boulevard

Bridge Plaza North, Corners of 29th Street (formerly
Academy Street) and Hunter Avenue

Northwest Corner of Jackson Avenue and Fiftieth Avenue
(formerly Fourth Street), Long Island City

38-18 Broadway (Corner of Broadway and Steinway Street),
Long Island City

Borough of Richmond-

Northeast Corner of Bay and Canal Streets, Stapleton

24-26 Bay Street, St. George

Provided the proposed merger with Corn Exchange Bank Trust Company, New York, New York, is effected substantially in accordance with the terms of a plan of merger dated August 26, 1954, a copy of which has been supplied to us by the Federal Reserve Bank of New York, and provided further that formal approval is obtained from the appropriate State authorities.

The Board of Governors also approves the establishment of a branch by the Chemical Bank & Trust Company at 1709-11 Broadway provided such branch is opened only after the discontinuance of the branch at 1724/28 Broadway.

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The authority to operate the branches will extend to Chemical Corn Exchange Bank in the event that name is adopted by your institution.

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

Letter to the National Bank of Commerce of Gastonia, Gastonia, North Carolina, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, the exercise of such authority to 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 power which the National Bank of Commerce of Gastonia is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, Pacific State Bank, Hawthorne, California, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the following special condition, 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 San Francisco, effective if and when the bank is authorized to commence business by the appropriate State authorities:

3. At the time of admission to membership such bank shall have a paid-up and unimpaired capital stock of not less than \$240,000 and other capital funds of not less than \$120,000.

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

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Letter to Mr. Snead, Chief Examiner, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in your letter of September 28, 1954, the Board approves the designation of the following named employees of your bank as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in the examinations of all State member banks except The Bank of Virginia, Richmond, Virginia:

Kenneth A. Adams	Shelton G. Phaup
H. W. Britt	E. V. Schumann
Franklin S. Clark	E. Milton Smith
L. B. Gee	Geo. E. Thompson, Jr.
B. E. Hall	C. L. Wiltshire, Jr.
Chas. H. Hall	W. C. Wilson
Melvin B. Nunnally	James R. Woody
Wilbert C. Parrish	

The authorizations heretofore given to your bank to designate the above named employees as special assistant examiners are hereby cancelled.

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 September 2, 1954, inquiring whether under Section 22(g) of the Federal Reserve Act and the Board's Regulation O the liability of an executive officer of a member bank to a credit union should be reported by such officer to his board of directors. The underlying question involved in the problem you have presented is whether a credit union is a "bank" within the meaning of Section 22(g) and Section 5 of the Regulation.

As you know, Section 22(g) provides that if any executive officer of a member bank becomes indebted "to any bank other than a member bank of which he is an executive officer" he shall make a written report of such indebtedness to the board of directors of his own member bank. The provision does not require executive officers to report indebtednesses to individuals or corporations or to any financial institutions except banks.

It is understood that the credit union referred to in your letter was organized under the Federal Credit Union Act (12 U.S.C.A. 1751, et seq.) which grants to credit unions

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established thereunder power to make loans to its members, to receive from its members payments on shares, to make certain investments, to make deposits in specified financial institutions, and to borrow money.

You have expressed the view in light of the Board's interpretations regarding Morris Plan companies (1936 Bulletin 249) and Federal land banks (1938 Bulletin 571), and in light of the purposes of Section 22(g), that the credit union in question should be considered as a "bank" for the purposes of reporting requirements of that section and the Board's Regulation O. You also referred to the Board's view that credit unions which are authorized to receive savings of their members in payment for shares of capital stock and also generally to receive such savings on deposit are to be regarded as "banks" for the purposes of Section 19 of the Federal Reserve Act (1928 Bulletin 426).

At the time of the 1928 opinion just mentioned, the Board analyzed several different types of financial institutions to determine whether deposits in member banks by such institutions should be classed by member banks in computing reserves as amounts "due to" banks within the meaning of Section 19 from which "due from" banks may be deducted. Because it was determined that mutual savings banks, Morris Plan banks and credit unions (organized under State law) received deposits and made loans not only out of capital but from deposits, the Board determined that they should be regarded as "banks" within the meaning of Section 19. In so finding, the Board made particular reference to the authority of credit unions, not only to receive savings of their members in payment for shares of capital stock, but also to the fact that they were generally authorized to receive such savings on deposit. At the same time, however, the Board was of the opinion that building and loan associations, as well as cooperative banks of the type found in Massachusetts, were not "banks" within the meaning of Section 19 since these institutions, while authorized to make loans upon the security of real estate and membership shares, do not usually receive deposits from members or others, except installment payments on membership shares. The Board considered such payments to be essentially capital rather than deposits.

In determining whether a particular financial institution is a "bank" for purposes of various provisions of law, the Board has considered not the name of the institution

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but the nature of its corporate powers and particularly whether it has authority to receive deposits. For example, in concluding that Federal land banks should be regarded as "banks" for purposes of Section 22(g), the Board specifically noted that such institutions were authorized by law to accept deposits of securities or of current funds of national farm loan associations. In this connection, the Attorney General of the United States had ruled in 1927 that joint stock land banks should be regarded as "banks" for purposes of the Clayton Act on the ground that they were authorized to receive deposits of the United States even though it appeared that this authority was not actually exercised.

The Federal Credit Union Act of June 26, 1934, which obviously was not involved in the 1928 opinion, provides no specific authority to receive deposits from members of the union or others, although there is authority to receive from members payments on shares and such payments, at least in a technical sense, are essentially capital and not deposits. These payments on shares are to be distinguished from payments made in installments on certificates of indebtedness issued by Morris Plan banks and Morris Plan companies which were the subject of the Board's 1936 opinion. In that connection the Board stated that the certificates of indebtedness on which installment payments were made, in effect represent deposits and serve the same purpose as certificates of deposit. The Board, therefore, considered that the Morris Plan company in question should properly be regarded as a "bank" within the meaning of Section 22(g) of the Federal Reserve Act.

In view of the above, the Board has concluded that indebtedness of an executive officer of a member bank to a credit union organized under the Federal Credit Union Act of June 26, 1934, need not be reported to the board of directors of the member bank.

Approved unanimously.

Letter to Mr. Hassell Bell, Division of Audits, General Accounting Office, 441 G Street, N. W., Washington, D. C., reading as follows:

The enclosed reports set forth the status of guaranteed loans purchased by the Federal Reserve Banks in their

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capacity as fiscal agents of the Departments of the Army, Navy and Air Force under the Defense Production Act of 1950. Enclosed also are statements showing the number, date and amount of Certificates of Deposit issued by the Reserve Banks to the designated disbursing officers of these departments during fiscal year 1954, together with a record of expense vouchers covering fiscal year 1954 for which the Reserve Banks received payment.

This information has been obtained from the Federal Reserve Banks at the request of the Departments of the Army, Navy and Air Force in connection with an audit which the General Accounting Office is making of the guaranteed loan programs of these departments as of June 30, 1954.

Approved unanimously.

Reference was made to a memorandum dated October 5, 1954, from Mr. Johnson, Controller, recommending, pursuant to the request contained in an attached memorandum from Mr. Vest dated September 24, 1954, that the Board approve the Legal Division expending an excess of \$600 over the amount provided in its 1954 budget for "Traveling Expenses" and an excess of \$300 over the amount budgeted for "Telephone and Telegraph".

Approved unanimously.

There was presented a memorandum dated September 30, 1954, from Mr. Sherman, Assistant Secretary of the Board, recommending that the resignation of Catherine H. McGee, File Clerk in the Office of the Secretary, be accepted effective November 30, 1954.

Approved unanimously.

Chairman Martin suggested that meetings of the Board be limited ordinarily to 1-1/2 or 1-3/4 hours and that, if necessary to complete the agenda, the Board reconvene in the afternoon. There was general agreement with the Chairman's suggestion.

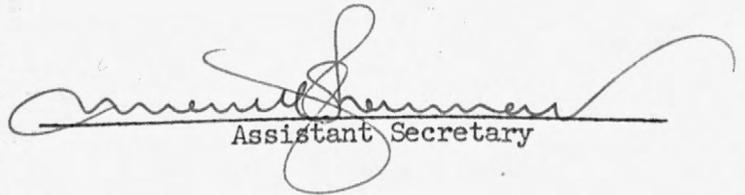
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Mr. Vest stated that pursuant to the understanding at the meeting on October 4, 1954, arrangements had been made for representatives of Investors Management Company, Inc. and Hugh W. Long & Co. to meet with the Board at 2:30 p.m. on Monday, October 11, 1954.

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

The meeting then adjourned.


Assistant Secretary