

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 28, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Cherry, Legislative Counsel

The following matters, which had been circulated among the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memorandum dated January 20, 1955, from Mr. Sloan, Director, Division of Examinations, recommending that the basic annual salaries of the following employees in that Division be increased in the amounts indicated, effective January 30, 1955:

<u>Name and title</u>	<u>Basic annual salary</u>	
	<u>From</u>	<u>To</u>
Doris J. Shanks, Stenographer	\$3,110	\$3,255
Dolores Ann Winkler, Stenographer	3,190	3,335

Approved unanimously.

Memorandum dated January 19, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that Nancy B. Kelly be transferred from the position of Clerk-Stenographer to the position of Secretary in that Division, with an increase in her basic annual salary from \$3,655 to \$3,785, effective January 30, 1955.

Approved unanimously.

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Memorandum dated January 21, 1955, from Mr. Johnson, Controller, and Director, Division of Personnel Administration, recommending that J. N. Kiley, Technical Assistant in the Division of Bank Operations, be granted leave to attend the 1955 summer session of the Graduate School of Banking at Rutgers University and that transportation and other expenses incidental to his attendance be paid by the Board on the basis outlined in the Board's letter S-1489, dated February 26, 1953.

Approved unanimously.

Memorandum dated January 24, 1955, from Mr. Johnson, Controller, and Director, Division of Personnel Administration, recommending that Ruth A. Westergren, Supervisor, Personnel Records Unit, Division of Personnel Administration, be granted permission to engage, as an outside activity, in the sale of her paintings and other art work.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. Wallace Dickson as an officer of the Federal Reserve Bank of Boston, with the title of Administrative Assistant, for the period February 1, 1955 through December 31, 1955, at the rate of \$11,500 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of January 18, 1955.

Approved unanimously.

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

The Board of Governors approves the payment of salary to John P. Jensen, as Manager assigned to the Security Custody Department, for the period January 7, 1955 through December 31, 1955, at the rate of \$11,000 per annum, which is the rate fixed by the Board of Directors as reported in your letter of January 12, 1955.

It is noted from your letter that, coincident with the appointment of Mr. Jensen, new assignments were made as follows:

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Walter S. Rushmore	Manager, Personnel Department	\$12,000
Gerald H. Greene	Acting Manager, Service Department	10,250
William A. Heinl	Manager, Savings Bond Department	13,000

Approved unanimously.

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

Reference is made to your letter of January 17, 1955, and enclosures with respect to the retirement of \$5,000 par value preferred stock on February 1, 1955, by The State Trust Company at Plainfield, Plainfield, New Jersey.

After considering the information submitted and your favorable recommendation, the Board gives its prior consent to the proposed retirement of \$5,000 of preferred stock by the trust company. It is noted that while, in your opinion, the present capital structure of the trust company is somewhat low, it has agreed to sell additional capital stock at \$300,000, which should substantially improve capital ratios and strengthen its proposal to establish an in-town branch.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in effecting the retirement.

Approved unanimously.

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

Reference is made to your letter of January 20, 1955, submitting the request of the Huntington Station Bank, Huntington Station, New York, for a further extension of time within which it may establish a branch on Walt Whitman Road in an unincorporated area of South Huntington, Town of Huntington, New York. It is understood that because of unfavorable weather, construction of the branch building has been delayed longer than expected.

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On the basis of the information submitted and in accordance with your recommendation, the Board of Governors extends to April 15, 1955, the time within which the Huntington Station Bank, Huntington Station, New York, may establish a branch at the location stated above.

Approved unanimously.

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

Reference is made to your letter of January 20, 1955, submitting request of Jackson City Bank and Trust Company, Jackson, Michigan, for an extension of time in which to establish a branch on West Ganson Street near the intersection of West Avenue in Jackson, Michigan.

In view of the circumstances outlined in your letter and your favorable recommendation, the Board of Governors extends until July 25, 1955, the time within which establishment of the branch, which was originally approved in the Board's letter of May 24, 1954, may be accomplished.

Approved unanimously.

Letter to the Board of Directors, California Bank, Los Angeles, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the absorption of California Trust Company, Los Angeles, California, and The First National Bank of Pomona, Pomona, California, by California Bank, Los Angeles, California, and approves the establishment by the latter bank of branches in quarters now occupied by the Pomona bank at Second and Main Streets; 321 East Holt Avenue; and 401 East Second Street, all in Pomona, California, provided (a) the absorption of the two banks is carried out substantially in accordance with the three-party agreement to be executed by the three banks involved, a copy of which has been supplied to us by the Reserve Bank; and (b) the branches are established within six months from the date of this letter.

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Further, the Board hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the absorption of Oilfields National Bank, Brea, California, by California Bank and approves the establishment by the latter bank of a branch at 201 South Pomona Avenue, Brea, California, provided (a) the absorption is carried out substantially in accordance with either of the alternative programs outlined in your bank's letter of January 3, 1955, addressed to Mr. C. E. Earhart, President of the Federal Reserve Bank of San Francisco, and (b) the branch is established within six months from the date of this letter.

The Board also grants permission to California Bank to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of California.

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

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated December 15, 1954, enclosing photostatic copies of an application to convert the American Bank, Fort Lauderdale, Florida, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

This bank has been a member of the Federal Reserve System since it opened for business on January 8, 1954, and, based upon information in our files as well as that supplied by the Federal Reserve Bank of Atlanta, a favorable report can be made with respect to its financial history, adequacy of capital structure, future earnings prospects, character of its management, and service to the community. The Board of Governors, therefore, recommends approval of the application.

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

Approved unanimously.

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Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated December 21, 1954, enclosing photostatic copies of an application to convert the Citizens State Bank of Downers Grove, Downers Grove, Illinois, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

Information obtained from the Federal Reserve Bank of Chicago concerning this application discloses favorable findings with respect to the factors usually considered in connection with such proposals, except with respect to the adequacy of capital. It is understood, however, that the directors of the bank have agreed to strengthen the capital through the sale of additional common stock. The Board of Governors, therefore, recommends approval of the application provided arrangements are made for a capital structure satisfactory to your office.

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

Approved unanimously.

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

Enclosed are copies of recent correspondence between the Board of Governors and the Treasury Department with regard to the current applicability of the Treasury-Federal Reserve joint statement of July 18, 1947, concerning international transactions in gold at premium prices. Also enclosed for your convenient reference is a copy of the 1947 statement.

Your attention is called particularly to the fact that the procedure now agreed upon by the Treasury contemplates neither a formal withdrawal of the statement nor any kind of public announcement on the subject. Should your bank receive a specific inquiry from some bank or other party affected by the 1947 statement, such party should be informed as to the

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present status of that statement, but it is not contemplated that advice on this matter be given to any bank or other person except in response to such an inquiry. The reason, of course, is that any publicizing of this relatively unimportant matter might give rise to undesirable implications with regard to more important aspects of the gold policy of the United States.

It seems doubtful whether any questions will actually be received in districts other than New York, but this material is being sent to the Presidents of the other Reserve Banks for reference in the event that any question arises in their districts.

Approved unanimously, together with a letter to Mr. Sproul, President, Federal Reserve Bank of New York, transmitting copies of the letter and enclosures sent to the other Reserve Bank Presidents.

Secretary's Note: The Treasury Department, in a letter dated January 10, 1955, from Mr. W. Randolph Burgess, Under Secretary for Monetary Affairs, concurred in the view that the 1947 joint statement served no useful purpose under existing circumstances and that in fairness to interested commercial banks, they should be given a more definitive statement of the present attitude of Government authorities with respect to this subject.

Letter for the signature of the Chairman to Mr. Dan Troop Smith, Special Assistant to the Secretary, Treasury Department, Washington, D. C., reading as follows:

This is in reply to your letter of January 3, relative to a possible change in the amortization of bond premiums to prevent tax deduction abuses.

The Board of Governors appreciates the desirability of avoiding situations in which essentially the same tax deduction is counted twice for the taxpayer's benefit. This is clearly the case when a bond premium is written down to the current call price and the bond is subsequently donated to charity, with the charitable deduction again including the bond premium.

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The change you propose, withdrawing completely the option to write down the premium to call price and permit only a write-down to the due date seems to prevent any further possibility of this abuse and to be superior to alternative methods of achieving the same result. The taxpayer is to be protected by the right to take a full deduction, rather than a capital loss, to the extent of any unamortized premium if the bonds should be called before final maturity. Banks are permitted under the present Code (Sec. 582c) to treat any net losses from the sale or exchange of bonds or other debt instruments as full deductions against ordinary income.

As the Comptroller of the Currency has indicated, such a change in the tax law would be at variance with the present amortization of bond premiums to call date which bank examiners require as the proper method of accounting for bond premiums. This is understood to be accepted accounting practice and the requirement doubtless would continue. However, this should not be a barrier to the proposed tax legislation.

The Board of Governors does not object to the change you suggest in the tax law.

Approved unanimously.

Letter to Mr. Blake O'Connor, Staff Director, Senate Select Committee on Small Business, United States Senate, Washington, D. C., reading as follows:

In accordance with your request of January 18 by telephone, we are transmitting herewith a brief report prepared by the staff of the Board of Governors for the Senate Select Committee on Small Business. The report brings up to date some of the information contained in the report entitled "Concentration of Banking in the United States", which was submitted to Honorable John Sparkman, Chairman of the Committee, on August 13, 1952.

Approved unanimously.

Letter for the signature of the Chairman to The Honorable Rowland R. Hughes, Director, Bureau of the Budget, Washington, D. C., reading as follows:

In compliance with a request received from the Senate Committee on Banking and Currency, the Board has

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prepared the enclosed report on the bill S. 256, "To eliminate cumulative voting of shares of stock in the election of directors of national banking associations unless provided for in the article of association."

Before transmitting this report, the Board will appreciate advice as to the relationship of the proposed legislation to the program of the President.

Approved unanimously, with the understanding that the report would be transmitted to the Senate Committee on Banking and Currency upon receipt of advice from the Bureau of the Budget that it would have no objection to submission of the report.

The following requests for travel authorization were presented:

Mr. Young, Director, Division of Research and Statistics. To travel to New York, New York, on February 2, 1955, to attend a meeting of the Committee for Economic Development's Subcommittee on Fiscal, Monetary, and Debt Management Policy.

Mr. Masters, Assistant Director, Division of Examinations. To travel to New York, New York, during the period February 6-11, 1955, to attend the Mid-Winter Trust Conference of the American Bankers Association and the System Conference of Trust Examiners.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas approving the establishment without change by the Federal Reserve Bank of St. Louis on January 24, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on January 27, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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At this point Messrs. Sloan, Director, and Masters, Assistant Director, Division of Examinations, entered the room.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to Mr. Christian C. Luhnnow, Editor and Publisher, Trusts and Estates, 50 East 42nd Street, New York, New York, reading as follows:

Reference is made to your letter of January 10 with which you enclose galley proof of a news-editorial planned for publication in your periodical TRUSTS and ESTATES on the subject of transfer of securities from individual fiduciary accounts to a common trust fund in which such accounts will participate. You have requested the Board's comments concerning the observations which you propose to make.

Neither the Federal statutes nor the Board's Regulation F expressly prohibits the practice of inter-trust dealing. However, a common trust fund is defined in section 17(a) of Regulation F as a fund maintained exclusively for the collective investment of "moneys contributed thereto" by the bank in its fiduciary capacity. In this regard, the Board, in May 1951, considered the propriety of direct transfers of U. S. Savings Bonds and nonmarketable Treasury Bonds to a common trust fund from individual trusts, in exchange for units of participation in the fund, and expressed the view that it would not object to transfers of such kinds. The view of the Board in this respect was published at page 510 of the 1951 Federal Reserve Bulletin.

The Board has not been presented with, and therefore has not ruled on, other and broader phases of this question relating to the transfer to a common trust fund of marketable securities and other investment obligations owned by individual fiduciary accounts in exchange for units of participation in the fund. For this reason, it would seem to us that your proposed statement that "no official objection is known to have been registered..." may carry an erroneous connotation. Your attention is also directed to the fact that Section 6 of the Uniform Trusts Act prohibits inter-trust dealing so that transactions of the kind herein discussed, no matter how practically desirable, would be forbidden in those States which have adopted such Act.

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Governor Vardaman recalled that on a number of occasions during the past several years, Mr. Luhnnow had submitted for the Board's views, prior to publication, items which he proposed to use in Trusts and Estates. He suggested that the Board consider whether it was desirable as a matter of policy to accede to such requests by handling them as official correspondence or whether it would be better to devise some other procedure. It was Governor Vardaman's thought that by continuing to handle such requests at the level of official Board correspondence, the Board might find itself in the position of having given consent to articles appearing in a private publication, that this could cause difficulty at some time, and that it also might lead to the receipt of similar requests from other publishers.

At the request of the Board, Mr. Masters reviewed the extent of correspondence and conversations with Mr. Luhnnow over the past several years concerning items which the latter intended to publish in Trusts and Estates. With regard to the publication itself, he commented that it was highly regarded in the trust field as a medium for discussion of matters of current interest and that it was the only publication of its kind. In the circumstances, he felt that there was something to be said for assisting Mr. Luhnnow in the dissemination of accurate information.

During a discussion which followed, it was suggested that further requests from Mr. Luhnnow be handled at the staff level, thereby providing him a certain amount of assistance while at the same time avoiding the danger that articles appearing in his publication might be held out as

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representing the official views of the Board of Governors.

Thereupon, the foregoing letter to Mr. Luhnnow was approved unanimously, with the understanding that any further requests of a similar nature would be handled at the staff level in the manner suggested.

Messrs. Sloan and Masters then withdrew from the meeting.

At the meeting on January 21, 1955, Mr. Riefler was designated to represent the Board of Governors on a panel of experts to discuss monetary policies before the Congressional Joint Committee on the Economic Report on January 31, 1955. Each of the persons on the panel was requested to submit a ten minute opening statement and the designation of Mr. Riefler was made with the understanding that a draft of his statement would be submitted to the Board. Accordingly, Mr. Riefler now distributed copies of the draft statement. The draft was reviewed and there were several suggestions for changes which it was understood Mr. Riefler would take into consideration in preparing his statement in final form.

At this point Mr. Marget, Director, Division of International Finance, was called to the room and, at the Board's request, discussed informally the circumstances surrounding the action of the Bank of England yesterday in raising its discount rate from 3 to 3-1/2 per cent. During an ensuing discussion of economic developments in the European area, reference was made to the housing situation and the terms on which real estate credit was available in the various countries, and it was understood

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that Mr. Marget would prepare some data on this subject for the information of the members of the Board.

Reference was made to individual invitations received by members of the Board and certain members of the staff to the dinner being given on March 3, 1955, by the officers of the National and State Bank Divisions of the American Bankers Association.

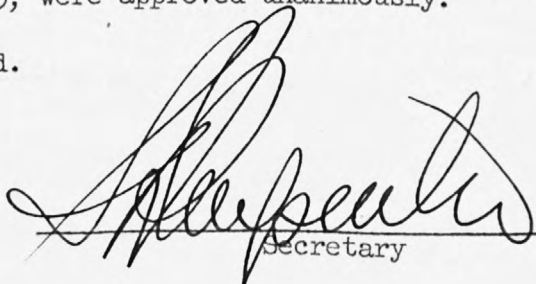
It was agreed that Governors Robertson and Balderston would attend the dinner along with any of the other members of the Board and members of the staff who might wish to accept the invitations sent to them.

Governor Robertson then reported receipt of a letter from Mr. Howard M. Taylor, Jr., a director of the Baltimore Branch, Federal Reserve Bank of Richmond, who stated that Mr. Theodore E. Fletcher, Sr., a recently-appointed director of the branch, had mentioned to him the meeting for new Federal Reserve Bank and branch directors in Washington on February 24, 1955. Mr. Taylor expressed interest in attending the meeting to improve his understanding of the System and inquired whether there would be any objection to his accompanying Mr. Fletcher.

There was unanimous agreement that Governor Robertson should reply to Mr. Taylor that the Board would be glad to have him attend the meeting.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 26, 1955, were approved unanimously.

The meeting then adjourned.


Secretary