

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 25, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Balderston

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General 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:

Memoranda from appropriate individuals concerned recommending actions with respect to the Board's staff as follows:

Salary increases, effective February 27, 1955

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Lillie B. Brow, Review Classifier		\$3,910	\$4,035
Kathryn H. Fortunato, Minutes Clerk		3,110	3,255
Frances B. Smith, Records Clerk		3,575	3,655
<u>Research and Statistics</u>			
Joan N. Yamamoto, Statistical Assistant		3,910	4,035
<u>International Finance</u>			
John E. Reynolds, Economist		6,340	6,540

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Salary increases, effective February 27, 1955 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Examinations</u>		
John A. Bladen, Assistant Federal Reserve Examiner		\$5,185	\$5,310
	<u>Personnel Administration</u>		
John H. Stetson, Personnel Technician		5,685	5,810
	<u>Administrative Services</u>		
Helen L. Hulen, Publications Clerk		4,705	4,830
Claiborne Johnson, Operator (Offset Press)		3,910	4,097
Charles A. Noell, Guard		2,830	2,910
Anna Mary S. Riden, Clerk		3,335	3,415
Margaret E. Royce, Clerk-Typist		2,950	3,030

Change in official headquarters

Robert R. Russell, Assistant Federal Reserve Examiner, Division of Examinations. From Dallas, Texas, to Washington, D. C., effective immediately.

Resignations

Foteny Economon, Clerk-Stenographer, Division of International Finance, effective April 15, 1955.

Dora S. Fowler, Junior Supervisor and Cashier, Cafeteria, Division of Administrative Services, effective June 30, 1955.

William M. Graham, Analyst, Division of Bank Operations, effective February 28, 1955.

Approved unanimously.

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Memorandum dated February 16, 1955, from Mr. Bethea, Director, Division of Administrative Services, stating that the application of Anna M. Utz, Charwoman in that Division, for retirement under the Board Plan of the Retirement System of the Federal Reserve Banks had been approved, effective March 1, 1955.

Noted.

Memorandum dated February 17, 1955, from Mr. Sloan, Director, Division of Examinations, submitting plans for a dinner on March 7, 1955, in connection with the forthcoming Conference of Representatives of the Bank Examination Departments of the Federal Reserve Banks, including a list of persons to be invited.

Approved unanimously.

Letter to Mr. Strathy, Secretary, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors approves the appointments of Messrs. J. G. Holtzclaw, Overton D. Dennis, Ross Puette, Walker D. Stuart, and John L. Whitehurst as members of the Industrial Advisory Committee for the Fifth Federal Reserve District to serve for terms of one year each beginning March 1, 1955, in accordance with the action taken by the Board of Directors as reported in your letter of February 10, 1955.

Approved unanimously.

Letter to Mr. Patterson, Secretary, Board of Directors, Federal Reserve Bank of Atlanta, reading as follows:

The Board of Governors approves the appointments of Messrs. John E. Sanford, I. C. Milner, Shannon M. Gamble, Luther H. Randall, and George Winship as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each beginning March 1, 1955, in accordance with the action taken by the Board of Directors as reported in your telegram of February 11, 1955.

Approved unanimously.

Letter to Mr. Harris, Federal Reserve Agent, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the request contained in your letter of February 11, 1955, the Board of Governors approves

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the appointment of Mr. Robert R. Andrews as Alternate Assistant Federal Reserve Agent to succeed Mr. J. Frank Fortune.

This approval is given with the understanding that Mr. Andrews will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

Mr. Andrews should execute the usual oath of office which should be forwarded to the Board of Governors, together with advice as to the effective date of his appointment.

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with the request contained in your letter of February 14, 1955, the Board approves the appointment of Maurice Jerome Swords as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise as to salary rate. If the appointment is not made effective March 1, 1955, as planned, please advise us.

Approved unanimously.

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

The Board of Governors approves the appointments of Messrs. Lawrence S. Pollock, Ira T. Moore, Jake L. Hamon, William P. Bomar, and Ross Stewart as members of the Industrial Advisory Committee for the Eleventh Federal Reserve District to serve for terms of one year each beginning March 1, 1955, in accordance with the action taken by the Board of Directors as reported in your letter of February 14, 1955.

Approved unanimously.

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

This refers to your letter of February 7, 1955, which presented the question whether a creditor subject to Regulation T may arrange for a customer a loan from a bank subject to Regulation U on unregistered, redeemable shares of an open-end investment company for the purpose of purchasing such shares. The question was received by you from the B. C. Morton Company, a dealer in securities in Boston.

As you indicated, this matter was the subject of the Board's interpretation published at page 1105 of the October 1952 Federal Reserve Bulletin which stated, in substance, that a creditor subject to Regulation T may not arrange for the extension or maintenance of credit on unregistered, redeemable shares of an open-end investment company in view of the provisions of section 7(c) of the Securities Exchange Act of 1934 and section 7(a) of Regulation T. The shares of most open-end investment companies, of course, are not registered on any national securities exchange.

You suggested, however, that the interpretation just referred to might now be inapplicable because of Amendment No. 12 to Regulation U, effective August 1, 1953. Under that amendment, loans by banks for the purpose of purchasing or carrying redeemable shares of open-end investment companies, whose assets customarily include registered securities, shall be deemed to be loans for the purpose of purchasing or carrying registered stocks. Therefore, any such loan, if secured directly or indirectly by any stock, is subject to Regulation U although the shares of the company are not themselves registered shares.

You will recall that, in announcing the above amendment in its press statement of June 9, 1953, and at page 599 of the June 1953 Federal Reserve Bulletin, the Board stated, among other things, that such amendment "does not affect Regulation T." In addition, the Board's interpretation published at p. 950 of the September 1953 Bulletin stated that a creditor subject to Regulation T may not arrange extensions of credit on unregistered securities for the purpose of purchasing or carrying either registered or unregistered securities.

Accordingly, it is the Board's view that its interpretation at page 1105 of the October 1952 Federal Reserve Bulletin, referred to above, is still effective, and that a creditor subject to Regulation T may not arrange for a customer a bank loan on unregistered, redeemable shares of an open-end investment company for the purpose of purchasing or carrying such shares.

Approved unanimously.

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Letter to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors interposes no objection to the transfer of your present Blue Cross - Blue Shield coverage to the plan offered by the North America Assurance Society of Virginia, Incorporated, in accordance with the provisions described in your letter of January 20, 1955.

Approved unanimously.

Letter to Mr. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

Your letter of December 31, 1954, inquires as to the propriety of making available to Mr. Russell M. Posner, an instructor at the University of San Francisco, the transcript of the conference with the Federal Reserve Board of representatives of branch banking systems and independent banks of the State of California which was held on September 12, 1953, for possible use in preparing a thesis on branch banking for his doctorate.

In view of the fact that the transcript of the hearing was sent to the branch-operating and independent banks and representatives of bankers' associations opposed to branch banking for editing and that a copy of the revised transcript was sent to at least one of those banks; in view of the fact that the content of the transcript deals mainly with arguments pro and con the establishment of branch offices and not with personalities; and in view of the lapse of more than thirty-one years' time, the Board sees no objection to Mr. Posner's reviewing the transcript and making use of it in connection with the preparation of his thesis if he so desires.

It is assumed that you will make available to Mr. Posner the copy of the corrected transcript contained in the records of your Bank.

The Board would be interested in receiving a copy of Mr. Posner's thesis on branch banking when it is completed.

Approved unanimously.

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

Before its recent revision, Regulation A provided, in sections 3(d) and 3(e), that Federal Reserve Banks include in their loan schedules to the Board an explanation of the

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facts and circumstances in those cases (1) where the Reserve Bank required the pledge of additional or marginal collateral in excess of 25 per cent of the amount of the paper discounted, and (2) where the amount of an advance secured by direct obligations of the Government was less than the face amount of such obligations.

In view of the elimination of these two provisions from Regulation A, as revised effective February 15, 1955, the Board's letter of November 5, 1937 (S-44, F. R. L. S. 4657), relating to the reporting of excess or marginal collateral, is hereby rescinded.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

Reference is made to your letter of February 15, 1955, regarding the request of the Montgomery Norristown Bank and Trust Company, Norristown, Pennsylvania, for an extension of four months' time within which to establish a branch in the Logan Square Shopping Center, Markley Street and Johnson Highway, in the Borough of Norristown, Pennsylvania.

After consideration of all of the available information, the Board concurs in your recommendation and extends to June 24, 1955, the time within which the Montgomery Norristown Bank and Trust Company may establish the branch at the aforementioned location, as originally approved in the Board's letter dated August 24, 1954.

Approved unanimously.

Letter to the Board of Directors, Lemoyne Trust Company, Lemoyne, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch by the Lemoyne Trust Company, Lemoyne, Pennsylvania, at 12th and Market Streets, Lemoyne, Pennsylvania, provided the branch is established within six months from the date of this letter.

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

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Letter to the Board of Directors, The Detroit Bank, Detroit, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by The Detroit Bank, Detroit, Michigan, in the vicinity of the intersection of McNichols Road (Six Mile Road) and Southfield Road, Detroit, Michigan, provided the branch is established within six months from the date of this letter.

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

Letters to the Board of Directors, Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, reading as follows:

The Board of Governors of the Federal Reserve System has received your request, submitted through the Federal Reserve Bank of St. Louis, for permission to establish a branch in the Preston Plaza Shopping Center to be located on the northeast corner of Preston Highway and Durrett Lane just east and south of the city limits of Louisville.

It is noted that the promoters of the Preston Plaza Shopping Center do not expect to start construction before early this spring and that the project is not expected to be completed until early in 1956. There also is a question as to whether permanent financing arrangements have been made to cover the cost of the construction. In the circumstances, the Board does not feel that it would be warranted in approving the application to establish a branch in the shopping center at this time.

The Board will be glad to reconsider this case at such time as permanent financing arrangements have been made and the construction has reached the stage where it is possible to estimate with some accuracy when the branch, if granted, could be opened for business.

The Board of Governors of the Federal Reserve System has received your request, submitted through the Federal Reserve Bank of St. Louis, for permission to establish a branch in the Shelbyville Road Shopping Center to be located on the south side of Shelbyville Road (U. S. Highway No. 60)

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about one and four-tenths miles east of the downtown section of St. Matthews, Kentucky.

After considering all the information submitted, you are hereby advised that the Board of Governors does not feel justified in approving the application. The following facts have borne weight with the Board in reaching its decision: (a) the proposed branch would give your institution banking offices immediately to the east and to the west of branches of two other banks (one of these was established recently and the other is to be established within a few months) and would work to their disadvantage in building up a profitable volume of business; (b) the drive-in tellers' windows at your St. Matthews Branch, which have been approved by the Board, will relieve congestion in that office and broaden its capacity to render service in the trade area; and (c) it does not appear that sufficient business will be generated in the immediate area to permit three branches to build up an adequate and profitable volume of business; hence approval would not be in the public interest.

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment of a branch consisting of two drive-in tellers' windows by the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, on a parking lot used by, but 41 feet from, its existing branch in St. Matthews, Kentucky, provided the branch is established within nine months from the date of this letter and the approval given by the Department of Banking of the State of Kentucky with respect to such branch is effective at the time it is established.

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment of a branch by the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, in a shopping center known as Dixie Plaza located on the east side of Dixie Highway about five and one-half miles south of the city limits of Louisville, Kentucky, provided the branch is established within nine

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months from the date of this letter and the approval given by the Department of Banking of the State of Kentucky with respect to such branch is effective at the time it is established.

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

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 response to a request received from the House Committee on Interstate and Foreign Commerce, the Board has prepared the enclosed report on the bills H. R. 397, H. R. 398, H. R. 3458, and H. R. 3720, all relating to Government insurance of mortgage loans made by lending institutions for the purpose of financing the construction of health facilities.

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 letter to the House Committee on Interstate and Foreign Commerce would be transmitted upon receipt of advice from the Budget Bureau that it would have no objection to submission of the letter.

Secretary's Note: With reference to the proposed report to the House Committee, there was some discussion, at the instance of Governor Balderston, as to whether mention should be made of the possible impact of the Government mortgage loan insurance on monetary and fiscal policies. It was noted, however, that the aggregate of contingent insurance liability at any one time was limited by each of the bills to a relatively small amount, and it was decided that the question could be raised more effectively at another time.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis,

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Kansas City, and Dallas approving the establishment without change by the Federal Reserve Bank of St. Louis on February 21, and by the eight other Federal Reserve Banks on February 24, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

With reference to letters relating to the appointment of industrial advisory committees at Federal Reserve Banks which were approved earlier in this meeting, Governor Balderston pointed out that in the absence of industrial loan activity at the Banks the advisory committees, which are appointed pursuant to the requirements of section 13b of the Federal Reserve Act, have no function to perform. In the circumstances, he raised the question whether, aside from the statutory requirement, the appointment of such committees was justified.

Other members of the Board indicated that they also had questions concerning the present procedure for making appointments to the industrial loan committees, and the suggestion was made by Governor Mills that consideration be given, from the legal standpoint and otherwise, to selecting members of such committees in the future from the ranks of the Class B and Class C directors of the respective Federal Reserve Banks.

At the conclusion of the discussion, it was understood that the matter of the industrial advisory committees would be brought to the attention of Mr. Young, Chairman of the Conference of Federal Reserve Bank Presidents, for discussion at the next meeting of the Presidents with the Board.

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Reference was then made to a letter addressed to Chairman Martin under date of January 25, 1955, by Mr. Floyd M. Call, Executive Manager of the Florida Bankers Association, concerning the practice by which so-called banking groups in that State bring together asset, liability, and capital structure figures of their individual banks into one consolidated balance sheet for the purpose of newspaper publication. Mr. Call inquired as to whether the practice was in conflict with any law, rule, or regulation of the Board of Governors and, if not, as to the Board's reaction with regard to the propriety of the procedure.

A draft of reply, which had been circulated to the members of the Board prior to this meeting, stated that the practice was not in conflict with the Federal banking laws administered by the Board, the only provision of such laws bearing upon the matter being that contained in subsection (a)(4) of section 5144 of the Revised Statutes of the United States, pursuant to which a holding company affiliate, as defined in section 2(c) of the Banking Act of 1933, must agree, in applying for a voting permit, that publication of individual or consolidated statements of condition of the banks with which it is affiliated may be required. The draft also stated that the Board had not required the publication of such statements by the holding company affiliates granted voting permits.

Governor Vardaman stated reasons why he felt that the practice referred to by Mr. Call might be misleading to the public and contrary to the interests of competing banking institutions. He suggested, therefore, that before a reply was sent, the views of the Comptroller of the Currency

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and the Federal Deposit Insurance Corporation be obtained and that Counsel for the Board consider whether there might be any reason to bring the practice to the attention of the Federal Trade Commission.

Following a discussion, it was agreed that no reply should be made to Mr. Call until after further study of the matter along the lines suggested by Governor Vardaman.

Governor Vardaman then stated that at luncheon yesterday a banker serving as a director of the Houston Branch, Federal Reserve Bank of Dallas, referred to a practice whereby certain larger banks in that State are said to have been approaching smaller banks with an offer to sell participations in their loan portfolio, with a guaranteed rate of return, upon the condition that the smaller institution maintain a specified balance on deposit at the larger bank. Governor Mills said that he also had been informed of such a practice from another source.

Following a brief discussion of factors involved in the growth of such a practice, it was agreed that Governor Robertson would make appropriate inquiry into the matter and report to the Board.

Governor Robertson then reported having had a discussion yesterday with a director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta, who stated that the branch directors had been given little direct responsibility in connection with the branch building program and that, as an example, they were advised only after the fact concerning consideration by the head office directors of the air conditioning situation which

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was the subject of discussion at the meeting of the Board of Governors on February 10, 1955. It was Governor Robertson's view that with two other branch building programs now going forward in the Atlanta District, the matter of the branch directors' responsibilities in connection with those projects should be taken up with President Bryan when he met with the Board on March 3 to discuss the Jacksonville air conditioning matter. He also felt that, if possible, the Board should consider the whole problem of branch directors' responsibilities prior to the meeting with Mr. Bryan in the interest of defining the position which it wished to take.

There was unanimous agreement with the views expressed by Governor Robertson.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 23, 1955, were approved unanimously.

The meeting then adjourned.


Secretary