

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 4, 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. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant 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 February 15, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Lynn J. Snyder as Clerk in that Division, with basic salary at the rate of \$3,030 per annum, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated February 21, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic salary of Murray Altmann, Economist in that Division, from \$5,560 to \$5,940 per annum, effective March 13, 1955.

Approved unanimously.

Letter to The First National Bank of Riverside, Riverside, New Jersey, 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

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trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary 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 New Jersey, the exercise of all such rights 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 powers which The First National Bank of Riverside is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, The Port City Bank, North Charleston, South Carolina, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Rivers Avenue and Bell Street, North Charleston, South Carolina, by The Port City Bank, North Charleston, South Carolina, provided the branch is established within six months of the date of this letter.

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

Letter to the Board of Directors, St. Bernard Bank & Trust Co., Arabi, Louisiana, reading as follows:

On September 2, 1954, the Board of Governors approved the establishment of a branch of St. Bernard Bank & Trust Co., Arabi, Louisiana, at the corner of Trio Street and St. Bernard Highway in the unincorporated town of Chalmette, Louisiana, provided the bank's capital was increased from \$150,000 to \$200,000 by the sale of \$50,000 par value of new common stock at a premium of not less than \$30,000 prior to the establishment of the branch which was to be effected on or before June 30, 1955.

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In accordance with the request submitted through the Federal Reserve Bank of Atlanta, the Board now approves the establishment of that branch on St. Bernard Highway at Fazzio Road, in the unincorporated town of Chalmette, Louisiana, and extends to September 30, 1955, the time within which such branch may be established. It is understood the required increase in the bank's capital has been consummated.

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

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

As recommended in your letter of February 15, 1955, the Board of Governors approves the additional investment of approximately \$4,135 in excess of the previously approved \$175,000 which was incurred by the wholly-owned affiliate, Taylor Investment Company, in constructing new bank premises for the Farmers' and Merchants' Bank, Provo, Utah. Please notify the bank of the Board's action.

Approved unanimously.

Letter to The Capital National Bank of Sacramento (in liquidation), Sacramento, California, reading as follows:

This refers to the resolution adopted on January 13, 1955, by the board of directors of your bank, signifying its desire to surrender the authority to exercise fiduciary powers heretofore granted by the Board of Governors of the Federal Reserve System.

The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to the effect that The Capital National Bank of Sacramento is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

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In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by the Board pursuant to the provisions of section 11(k) without first applying for and obtaining a new permit to exercise such powers.

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 16, 1954, enclosing photostatic copies of an application to organize a national bank at Clinton, Tennessee, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application, made by an examiner for the Federal Reserve Bank of Atlanta and covering information with respect to the factors usually considered in connection with such applications, indicates that the proposed capital structure of the bank would be inadequate if the volume of business anticipated by the proponents is attained. It is understood, however, that additional capital would be furnished if necessary. The prospects for future earnings of the bank are regarded as fair, and it is apparent that adequate management is to be provided. There appears to be some doubt as to whether the needs of the community for additional banking facilities are sufficiently great to warrant the establishment of a new bank. While the facts in this situation present a very close question, there would appear to be some justification for providing some banking competition in the

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community and, after considering all of the information available, the Board has decided to recommend 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 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 January 17, 1955, enclosing photostatic copies of an application to organize a national bank at Taylorville, Illinois, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application, made by a representative of the Federal Reserve Bank of Chicago, discloses generally favorable findings with respect to the factors usually considered in connection with such proposals. 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.

Letter to Mr. Clyde T. Warren, Attorney, Consolidated Gas Electric Light and Power Company of Baltimore, Baltimore, Maryland, reading as follows:

With your letter of February 15, 1955, you enclosed a revision of your Company's proposed "Employees' Stock Purchase Plan of 1955", an earlier version of which was submitted with your letter of January 24, 1955. As you indicated, the Board's reply of February 8 expressed the view, briefly, that loans by a bank

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willing to finance employee purchases of the Company's registered stock under such earlier version, would be "secured directly or indirectly" by the stock and, therefore, subject to the Board's Regulation U. Your recent letter asked whether bank loans under the proposed plan, as now revised, also would be regarded by the Board as subject to the regulation.

Like the earlier version, the revised plan provides, briefly, that an employee eligible to participate therein would be entitled to purchase, at a discount, registered common stock of the Company within a determinable maximum amount upon payment to the Company by the lending bank of the proceeds of an installment loan granted the employee for that purpose. The loan would be in an amount equal to the cost of the shares so purchased, and would be made pursuant to a contract entered into by the Company and the bank at the outset of the plan. Each participating employee would be required to execute an authorization for payroll deductions in the necessary amounts which the Company would agree to remit monthly to the bank as the installment payments on the employee's loan. Although the loan would bear no interest, the Company would agree to compensate the bank for its service and also to pay for group life insurance obtained by the bank for application against any employee's unpaid loan balance in the event of his death.

Under the revised plan it appears that, while the shares purchased by a participating employee would be issued in his name and could be voted by him, they would be held in the custody of the Company's Treasurer. Although the employee would not be required to endorse or to give the custodian a power of sale covering the shares so held, he could not sell, pledge, transfer, or otherwise dispose of such shares; and any dividends on the shares so held would be remitted by the Company to the lending bank for reduction of the employee's unpaid loan balance.

Custody by the Company would continue until (1) repayment of the employee's bank loan, or (2) the expiration of three years from the date of issue of the employee's shares, or (3) sale of the shares by the Company upon the employee's request, whichever should first occur. Upon repayment of the loan or expiration

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of the three-year period, the shares would be delivered to the employee. But, in the event of sale of the stock by the Company, it would be obligated to apply the proceeds against the employee's unpaid loan balance. Any excess, of course, would be paid to the employee.

The employee would have the right to request the Company to sell his shares in the event of his separation from service for any reason, which event would mature his loan at the bank. Also, in the event of the employee's financial distress or, apparently, a decrease in the value of his shares below a certain level, provision is made for him to request the Company to sell the stock. The provision for sale of the shares in the event of the employee's financial distress would seem to be available, at least in some cases, should the employee's pay become insufficient to meet his payroll deduction authorized under the plan; and if any installment on his bank loan should be in default for two months, the loan also is matured.

The revisions in the plan submitted with your letter of February 15 involve, chiefly, the provisions summarized in the above three paragraphs hereof; and it is noted, among other things, that the revision of the plan eliminates therefrom the right of the Company, in its discretion, to sell the shares of the employee held in its custody if his pay should become insufficient to meet his authorized payroll deduction, or if he should be separated from service. In addition, it is understood that the revision makes no change in the Company's draft of its proposed contract with the lending bank submitted with your letter of January 24, including the provisions thereof apparently intended to limit the bank to recourse against the borrowing employee only, in the event of default on his loan.

On the other hand, it is noted especially that the revision of the plan, as indicated above, continues provisions for custody by the Company of the shares purchased by a participating employee; use by the Company of the proceeds of any sale by it of the employee's shares held in custody to reduce or retire the employee's bank loan; and payment by the Company of any dividends on the employee's stock to the lending bank for application against the employee's loan.

The Board appreciates fully the desire of your Company to institute promptly an employee stock purchase plan which would not be subject to Regulation U, and your revision of the plan has been carefully considered. It appears,

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however, that the revision of the plan would not substantially change the advantages thereunder to the lending bank which, in the opinion of the Board, would be very much the same as those which would exist if the shares were, in fact, pledged directly with the bank. And, as you know, the regulation refers to loans secured "indirectly", as well as "directly", by any stock.

Accordingly, the Board continues to be of the view that, notwithstanding such revision, the bank loans contemplated to be made under the plan would be "secured directly or indirectly" by stock within the meaning and for the purposes of Regulation U; that such loans would not be covered by any exception in the regulation; and that, therefore, the bank could loan to each employee participating in the plan no more than the prescribed maximum loan value of the registered stock purchased by him.

Approved unanimously, with
a copy to the Federal Reserve
Bank of Richmond.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, St. Louis, and San Francisco approving the establishment without change by the Federal Reserve Banks of Boston and St. Louis on February 28, by the Federal Reserve Bank of San Francisco on March 2, and by the Federal Reserve Banks of New York and Philadelphia on March 3, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Governor Szymczak stated that Mr. Eugene R. Black, President of the International Bank for Reconstruction and Development, advised him yesterday that Mr. Per Jacobsson, Economic Adviser to the Bank for International Settlements, was going to address the directors and staff

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members of the International Bank and the International Monetary Fund at 3:00 p.m. on Monday, March 21, that it was now planned that the meeting would be held in the conference room of the State Department building located at 1778 Pennsylvania Avenue, and that an invitation was extended to the members of the Board and the Board's staff who would be interested in hearing Mr. Jacobsson.

The invitation was noted with the understanding that the Secretary's Office would send a memorandum on the matter to the members of the Board and appropriate members of the staff.

Governor Balderston stated that if the Jacksonville Branch air conditioning matter which was discussed yesterday with Mr. Bryan, President of the Federal Reserve Bank of Atlanta, should be taken up by the Board next week in his absence, he would like to be recorded as favoring the Atlanta Bank's proposal for expending approximately \$120,000 to enlarge and improve the branch air conditioning system. He said that although this would mean an expenditure of about \$15,000 that apparently could have been avoided if the system had been adequately designed in the first instance and the installation better supervised, the Atlanta Board of Directors evidently had given thorough consideration to the courses of action that might be taken and in all the circumstances there seemed to be no course for the Board of Governors to follow at this point except to approve the further expenditure.

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Governor Vardaman said that in the circumstances he likewise would favor approval of the Atlanta Bank's current proposal. He felt, however, that in taking such action the Board should go on record that the Bank's architect seemed to be at least partially responsible for the situation that had arisen and that in agreeing to the retention of the same architect by the Atlanta Bank for other branch building programs now in process the Board was following the advice of the Atlanta Board of Directors.

Governor Balderston then stated that inasmuch as the problem of borrowing by Illinois banks which was discussed yesterday with Mr. Young, President of the Federal Reserve Bank of Chicago, probably would be taken up by the Board next week, he would like to have it known that he favored holding any borrowing associated with the April 1 personal property tax to a 15-day, discontinuous basis. The adoption of such a policy, he pointed out, would of course require agreement with the Chicago Reserve Bank on a definition of "continuous borrowing".

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 3, 1955, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks on March 3, 1955, were approved unanimously.

The meeting then adjourned.


Secretary