

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 17, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, Assistant General Counsel
 Mr. Chase, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Nelson, Assistant Director, Division of Examinations

The following matters, which had been circulated to 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 personnel actions with respect to the Board's staff as follows:

Appointments, effective upon the respective dates of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Type of appointment</u>	<u>Basic annual salary</u>
Shirley Anne Cohran, Clerk-Typist	Research and Statistics	Part-time basis (four-hour day)	\$1,475
Barbara Joan Pessagno, Statistical Clerk	Bank Operations	Regular	2,950

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Extension of temporary appointment

Constance A. DeNardo, Elevator Operator, Division of Administrative Services, for an additional period of not to exceed six months from the expiration of her present six-month appointment, with no change in her present basic salary at the rate of \$2,560 per annum.

Acceptance of resignation

Edward L. Hampton, Tabulation Planner, Division of Administrative Services, effective March 18, 1955.

Approved unanimously.

Secretary's Note: In approving the appointment on a part-time basis of Miss Cohran, a high school student, the Board noted a memorandum dated March 10, 1955, from Mr. Johnson, Controller, and Director, Division of Personnel Administration, which recommended experimentation with this plan to the extent necessary to fill positions in critical employment areas, with the understanding that when other acceptable applicants were available, they would be employed in preference to part-time employees.

Memorandum dated March 11, 1955, from Mr. Marget, Director, Division of International Finance, recommending that the Board grant permission to Samuel I. Katz, Economist in that Division, to teach a course in commercial banking at the American University on Monday and Wednesday evenings during the 1955 summer session, beginning approximately June 20 and ending July 29. The memorandum stated that the honorarium for this assignment would be \$300.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. William M. Brown as an Acting Assistant Manager at the Portland Branch for the period March 1, 1955 through

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December 31, 1955, or until Mr. Bent again assumes his duties as Assistant Manager, at the rate of \$7,200 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of March 4, 1955.

Approved unanimously.

Telegram to Mr. Brawner, Federal Reserve Agent, Federal Reserve Bank of San Francisco, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such organization to vote the stock which it owns or controls of National Bank of Washington, Tacoma, Washington, at any time prior to July 1, 1955, to act upon proposals (1) to increase the capital stock of such bank, and (2) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

Approved unanimously.

Reference was made to a memorandum from Mr. Hackley dated March 4, 1955, regarding the desire of Transamerica Corporation, San Francisco, California, to obtain a general voting permit with respect to the First National Bank of Arizona, Phoenix, Arizona, and the National Bank of Washington, Tacoma, Washington. The memorandum, which had been circulated to the members of the Board, stated that before filing an application, Transamerica would like to be advised whether the application should be limited to those two national banks or whether the application might include all four national banks now controlled by Transamerica, with surrender and cancellation of the outstanding voting permit issued in 1937 which covered three national banks, including Bank of America National Trust & Savings Association, San Francisco, California. It was reported to be the feeling of Transamerica that since it had divested itself of all stock

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ownership in Bank of America National Trust & Savings Association, and since some of the provisions in the 1937 voting permit agreement were no longer applicable, a new general voting permit covering all four national banks controlled by Transamerica would be "a more clear-cut arrangement". The memorandum stated that the past practice of the Board in a case of this kind had been to issue a general voting permit only with respect to the additional banks, but that the staff did not see any substantial objection in principle to the issuance of a comprehensive general voting permit. The memorandum noted: (1) that such a permit would not include Bank of America National Trust & Savings Association, and (2) that it might be possible for Transamerica to dissipate the reserve of readily marketable assets accumulated under the current voting permit. It was believed, however, that the second point could be dealt with by a special provision at the time of the issuance of the new permit. It was also suggested that the prescribing of any other special conditions that might be deemed advisable was a matter that could be determined only on the basis of information submitted with the voting permit application.

At the request of the Board, Mr. Hackley made a statement in which he said that the problem appeared to be a procedural rather than a legal one. He also said that while there was some inclination on the part of the staff to favor the usual procedure, that is, an application for a permit limited to the two national banks with respect to which a voting permit is not now held by Transamerica, no substantial objection was seen to an application by Transamerica for a comprehensive voting permit.

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During the discussion which ensued, members of the Board indicated that they had no feeling against the filing of an application for a comprehensive permit and that in fact there might be some advantage in a procedure under which Transamerica would no longer hold an outstanding permit covering Bank of America National Trust & Savings Association.

Accordingly, unanimous approval was given to a telegram to Mr. Earhart, President, Federal Reserve Bank of San Francisco, in the following form:

Your letter February 15, 1955, regarding proposed application by Transamerica Corporation for general voting permit covering First National Bank of Arizona, Phoenix, Arizona, and National Bank of Washington, Tacoma, Washington. It is understood that Transamerica would like to be advised whether application should be limited to these two national banks or whether it would be permissible for application to cover all four national banks now controlled by Transamerica with surrender and cancellation of outstanding general voting permit issued in 1937.

It has, of course, been practice in cases of this kind for new general voting permit to be granted only with respect to those member banks not covered by an outstanding general voting permit. However, if Mr. Belgrano desires to submit application covering not only two national banks above mentioned but also First National Bank of Nevada, Reno, Nevada, and First National Bank of Portland, Portland, Oregon, which were named in 1937 voting permit, Board would be willing to consider such an application, provided, of course, it is understood that the existing general voting permit will be surrendered and cancelled simultaneously with, and not prior to, issuance of such a new voting permit. In order to avoid any misunderstanding as to applicability of provisions of paragraph (c) of section 5144 of Revised Statutes, requiring maintenance of reserve of readily marketable assets, such reserve accumulated by Transamerica pursuant to outstanding general voting permit would, of course, need to be continued upon issuance of such new general voting permit and maintained thereafter in accordance with provisions of that paragraph.

As to whether conditions of new voting permit agreement would be substantially the same as those in outstanding agreement, agreement and conditions should, of course, follow

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standard procedure prescribed in outstanding instructions of the Board as contained in its letter of March 10, 1947 (F.R.L.S. #7190). While Board does not now know of any special conditions which would need to be prescribed, necessity for any such conditions would have to be considered in light of information submitted with new application.

Mr. Hackley then withdrew from the meeting and Messrs. Solomon and Hexter, Assistants General Counsel, entered the room.

Prior to the meeting there had been circulated to the members of the Board a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, prepared in response to the Bureau's request for the Board's views on a draft bill cited as the "Housing Amendments of 1955". When the draft of reply was in circulation, Governor Mills suggested certain changes in it so that the draft now considered by the Board read as follows:

This is in reply to your letter of February 25, 1955 to the Chairman of the Board of Governors requesting the Board's views on the draft bill cited as the "Housing Amendments of 1955". The Board has no comments to offer on the bill as a whole, except with respect to sections 13, 14, 15, and 16 in which we have a direct interest.

Section 13 would permit Federal savings and loan associations, within certain limitations, to invest in any securities approved by the Home Loan Bank Board and in improved and unimproved real estate. Section 14 provides that, regardless of any limitation of law, all public funds of the United States and the funds of all corporations organized under the laws of the United States (which would include Federal Reserve Banks and national banks) may be invested in shares and accounts (to the extent they are insured) of savings and loan associations. Section 15, by amending section 5136 of the Revised Statutes, would permit national banks, and also State member banks when not in contravention of State law, to deal in, underwrite, and purchase for their own account, insured shares or accounts

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in savings and loan associations. Section 16 would make obligations of the Federal Home Loan Banks eligible as collateral for fifteen-day advances from the Federal Reserve Banks.

The Board of Governors does not favor such changes in existing law and, in any event, they are so sweeping in character as to suggest that consideration through a separate bill would afford the best means for fully developing what would be the consequences of their enactment.

In explanation, it is pointed out that savings and loan associations were designed to be and have served admirably as mutual thrift and home financing institutions. The powers provided for under section 13, taken together with those also provided for in section 15, are not believed to be consistent with this conception as they would permit an extension of savings and loan association activities further into the unrelated fields now occupied by general banking and investment institutions.

With particular reference to section 16 of the bill, it has been the experience of the Board of Governors that no useful purpose has been served by amendments to the law making obligations of particular types of institutions eligible as collateral for 15-day advances from the Federal Reserve Banks. To do so does not assist member banks in meeting the ordinary credit needs of their communities. Moreover, when the occasion demands there is adequate scope under section 10(b) of the Federal Reserve Act for member banks to tender Federal Home Loan Bank obligations as collateral for Federal Reserve Bank advances. Under this provision of the Act advances can be made to member banks on eligible collateral at a rate $1/2$ of 1 per cent higher than the usual discount rate.

Following a discussion, the letter was approved unanimously in the form set forth above.

Mr. Chase then withdrew from the meeting.

Reference was made by Governor Robertson to a memorandum dated March 17, 1955, from the Division of Examinations recommending approval

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of the request of The Marine Trust Company of Western New York, Buffalo, New York, (a subsidiary of Marine Midland Corporation), for permission to establish branches in Gowanda and Eden, New York, in connection with its proposed merger with the Bank of Gowanda, an insured nonmember bank. On the basis of preliminary information, the Board had advised the Federal Reserve Bank of New York on December 10, 1954, that it had no objection to this transaction although final action would be based on full information to be furnished with the application for permission to establish the proposed branches. According to advice from the New York Reserve Bank, informal approval of the transaction had now been given by the State Superintendent of Banks and formal approval would be forthcoming upon official filing of the merger papers at the effective date of the merger.

Governor Robertson said that the banks involved desired to take action on the merger today and, after commenting on the facts pertinent to the proposed transaction, he recommended that the request of The Marine Trust Company of Western New York be approved by the Board.

Thereupon, unanimous approval was given to a letter to the Board of Directors, The Marine Trust Company of Western New York, Buffalo, New York, reading as follows, for transmittal through the Federal Reserve Bank of New York, with the understanding that the New York Reserve Bank would be advised immediately by telephone:

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Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of branches in Gowanda and Eden, New York by The Marine Trust Company of Western New York, provided the merger of The Marine Trust Company of Western New York and Bank of Gowanda, Gowanda, New York is effected substantially in accordance with the plan submitted and the branches are established within six months of the date of this letter.

Mr. Hostrup then withdrew from the meeting.

Prior to this meeting there had been sent to the members of the Board copies of:

(1) a memorandum dated March 11, 1955, from the Division of Examinations recommending that the Board give its prior written consent, as required by section 18(c) of the Federal Deposit Insurance Act, to the proposed absorption of Bronx County Trust Company, New York, New York, by President and Directors of the Manhattan Company (Bank of the Manhattan Company), also of New York City; and that the Board grant permission to the latter institution to operate branches at the present locations of the Bronx County Trust Company's main office and its eight branches. The memorandum stated that the branches were approved by the New York State Banking Board on March 10, 1955.

(2) a memorandum from Mr. Hexter dated March 15, 1955, discussing various aspects of the above mentioned proposal and of the proposed merger of The Chase National Bank of the City of New York into Bank of the Manhattan Company under the charter of the latter. Mr. Hexter's memorandum was written in the light of additional information concerning the proposed transactions which had been supplied by or through the Federal Reserve Bank of New York in response to the Board's letter of February 11, 1955. Mr. Hexter expressed the opinion that it was questionable whether the record before the Board would justify a determination that the applications should be disapproved on the ground that the proposed actions would be contrary to the public interest.

In view of the urgency with respect to the Bronx County Trust Company matter, consideration was given to that transaction at this meeting. Mr. Sloan reviewed the situation, expressed the opinion that the two

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proposed transactions could be considered separately, stated that the absorption of the Bronx County Trust Company would not appear to lessen competition materially or be contrary to the public interest, and recommended that the Board give its approval. Governor Robertson concurred in Mr. Sloan's view that there appeared to be no compelling reason why the Board should act on the two proposals at the same time. He said that on the basis of all of the facts which had been submitted to the Board, he saw no reason why the Board should act unfavorably with respect to the absorption of the Bronx County Trust Company.

Following further discussion, unanimous approval was given to a letter to the President and Directors of the Manhattan Company, (Bank of the Manhattan Company), New York, New York, reading as follows, for transmittal through the Federal Reserve Bank of New York:

Pursuant to your request submitted through the Federal Reserve Bank of New York, 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 Bronx County Trust Company, New York, New York, by the President and Directors of the Manhattan Company (Bank of the Manhattan Company), New York, New York, and also approves the operation of branches at the following locations in Bronx County, New York City, New York:

2804 Third Avenue	716 East 233rd Street
270 East 137th Street	2 West Fordham Road
3397 East Tremont Avenue	11 Hugh J. Grant Circle
1472 Ogden Avenue	5560 Broadway
1060 East Tremont Avenue	

provided (a) the transaction is effected substantially in accordance with the plan as presented through the Federal

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Reserve Bank of New York, (b) that the banking premises acquired from the Bronx County Trust Company are not placed on the books of your bank at amounts in excess of depreciated values as computed for Federal income tax purposes, (c) that formal approval is obtained from the appropriate State authorities, and (d) the absorption of the Bronx County Trust Company and establishment of these branches are accomplished within six months from the date of this letter.

Messrs. Hexter and Nelson then withdrew from the meeting.

Reference was made to two memoranda from Mr. Solomon, dated March 11 and March 16, 1955, respectively, concerning alleged violations of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, in connection with the current Montgomery Ward & Company proxy contest. The memoranda, copies of which had been sent to the members of the Board, discussed a visit to the Board's offices on March 11 by representatives of a legal firm, friendly to the present management of the company in question, who stated to Mr. Solomon that Regulation U possibly was being violated by associates of the party attempting to gain control of the company and that they would like the Board to consider sending to all banks, or perhaps a selected group of banks, a questionnaire intended to develop such information. Mr. Solomon indicated to them that the questionnaire which they suggested would not catch the type of loan in which they were interested, that there might be some difficulty in devising such a questionnaire, and that furthermore it was his opinion that the Board would not wish to take sides in such a contest, although it naturally would be interested in any violation of its

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regulations. On March 16 one of the attorneys who had talked to Mr. Solomon called on the telephone and again raised the question of sending out some form of questionnaire. He also raised questions with respect to the enforcement of Regulation U and the detection of violations.

After reviewing the incident at the request of the Board, Mr. Solomon said that he was under no commitment to return the telephone call or to take any other action, but that it would be helpful to have the Board's views in the event of further inquiry. He added that so far as he knew the Board had never sent out a questionnaire of the kind suggested.

The members of the Board were of the opinion that it would be inadvisable to comply with the request. On the other hand, it was agreed that if any concrete evidence concerning specific violations of its regulations should be brought to the Board's attention, appropriate follow-up action should be taken.

Chairman Martin said that, while he concurred in these views, the Board should take whatever steps were feasible to assure the adequacy of existing procedures for checking on conformity with Regulation U. Governor Robertson expressed the opinion that current examination procedures should detect any substantial violations of the regulation. However, to provide additional assurance, he suggested that consideration be given to the preparation of a memorandum dealing with various features of Regulation U for the use of Federal Reserve Bank examiners and that copies of such a memorandum might be given to the other bank supervisory agencies for distribution to their examining staffs.

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There was agreement with this suggestion, and Mr. Solomon was requested to consider the preparation of an appropriate memorandum.

Mr. Sloan then withdrew from the meeting.

There had been sent to the members of the Board copies of a draft of letter to the Honorable William L. Dawson, Chairman of the House Committee on Government Operations, prepared in response to his request for a report on bill H. R. 2643, which would direct the Comptroller General to make an audit of the Board of Governors, the Federal Reserve Banks, and the Federal Open Market Committee for the period December 23, 1913, through December 31, 1954.

Mr. Thurston stated that certain suggestions for changes in the draft had been made to him by Governor Vardaman and that he understood Governor Robertson also had some suggestions.

At the conclusion of a discussion of the matter, Mr. Thurston was requested to revise the draft in the light of suggestions made to him by the members of the Board and to send copies of the revised draft to the members of the Board with a view to further consideration of the matter at the meeting tomorrow.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 16, 1955, were approved unanimously.

The members of the staff then withdrew and the Board went into executive session.

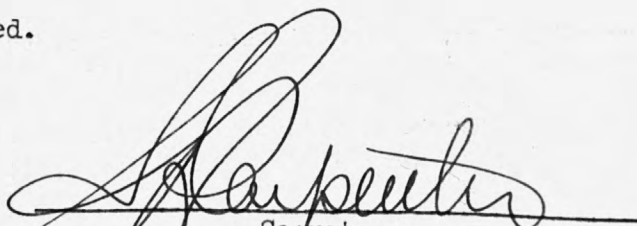
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Chairman Martin subsequently informed the Secretary that during the executive session consideration was given to a memorandum dated March 11, 1955, from Mr. Marget, Director, Division of International Finance, which recommended that the Board grant permission to Mary J. Katinas, Clerk-Stenographer in the Division, to accept part-time employment on a temporary basis with the A. A. Public Stenography, 930 F Street, Washington, D. C., with the understanding that Miss Katinas would be employed several evenings a week and Saturdays, with compensation at the rate of \$1.50 per hour. This matter had been discussed informally at the meeting of the Board yesterday, and Mr. Johnson, Controller, and Director of the Division of Personnel Administration, subsequently submitted to the Board a memorandum dated March 17, 1955, stating the reasons why Miss Katinas wished to engage in this part-time employment, which would extend over a period of only two or three months.

Chairman Martin stated that the Board voted to grant the requested permission, with the understanding that, in accordance with the discussion at the meeting of the Board on March 16, 1955, the general question of outside employment of members of the staff would be considered by the Board along with other personnel matters after Governor Shepardson had assumed his duties as a member of the Board.

The meeting then adjourned.


Secretary