

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 23, 1955. The Board met in the Board Room at 10:00 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. 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. Hexter, Assistant General Counsel  
 Mr. Koch, Assistant Director, Division of Research and Statistics  
 Mr. Nelson, Assistant Director, Division of Examinations  
 Mr. Cherry, Legislative Counsel

Governor Szymczak referred to the report of the Legal Committee on Foreign Operations of American Banks which was submitted under date of March 11, 1955, in response to the Board's request that the Committee:

- (1) prepare a draft revision of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, in alternative versions which would carry out both the majority and the minority recommendations previously made by the Special Committee on Foreign Operations of American Banks, and (2) consider an amendment to section 25 of the Federal Reserve Act which would

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enable the Board to broaden the powers of foreign branches of national banks as recommended by the Special Committee. Governor Szymczak said that a copy of the Legal Committee's report had been sent to each member of the Board but that he would suggest that no action be taken until the Special Committee had had an opportunity to consider the report and submit comments.

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 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>Basic annual salary</u>	
Ann M. Van Eckhardt, Clerk-Typist	Research and Statistics	\$3,030	
Samuel D. Everett, Assistant Federal Reserve Examiner <u>1/</u>	Examinations	5,060	

Salary increases, effective March 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>		
Loretta D. Beale, Review Classifier		\$3,785	\$3,910
Jean F. Stockwell, Records Clerk		3,415	3,495

1/ Official headquarters: Atlanta, Georgia

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Salary increases, effective March 27, 1955 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Dorothy H. Ford, Clerk		\$3,190	\$3,270
Monica F. Jones, Clerk		4,035	4,160
Richard Pickering, Economist		5,435	5,560
<u>Bank Operations</u>			
T. A. Veenstra, Jr., Analyst		5,185	5,310
<u>Administrative Services</u>			
Wesley B. Collins, Mail Clerk		3,350	3,430
Ruth E. Ellis, Cafeteria Helper, (Part-time basis)		1,315	1,350
Harry E. Kern, Supervisor, Procure- ment Section		5,435	5,560
Morris Mayhew, Gardener		3,534	3,614

Transfer

Fredrick L. Frost, from the position of Messenger in the Division of Administrative Services to the position of Messenger in the Board Members' Offices, with no change in his present basic salary of \$3,150 per annum, effective upon the date of assuming his new duties.

Acceptance of resignation

Frances M. Callahan, Assistant Manager (Cafeteria), Division of Administrative Services, effective May 31, 1955.

Approved unanimously.

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Memoranda dated March 15, 1955, from Mr. Sloan, Division of Examinations, recommending that the Board approve an advance of funds in the amount of \$1,000 to assist in meeting the expenses of previously authorized official travel to Europe by Glenn M. Goodman, Assistant Director of that Division, and that a like advance be made to John M. Poundstone, Assistant Federal Reserve Examiner, for the same purpose.

Approved unanimously.

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

Reference is made to the Board's letters of November 26, 1954, and January 5, 1955, designating and authorizing certain members of its staff to sign and countersign checks drawn against the Board's "General Fund" and "Payroll Fund" accounts.

Miss Susie T. Oros, one of the three authorized "signers", is on extended leave for several months. For the period of her absence, Mr. John Kakalec, one of the four present authorized "countersigners", has been designated a signer instead. Accordingly, and until further notice, you are authorized and requested, beginning as of March 15, 1955, to honor checks drawn against the Board's "General Fund" and "Payroll Fund" accounts when signed by Mr. S. H. Bass, as Disbursing Officer, or Miss J. E. Lally as Deputy Disbursing Officer, or Mr. John Kakalec as an authorized signer, and countersigned by Mr. E. J. Johnson as Controller, or Mr. M. B. Daniels as Assistant Controller, or Mr. W. A. Pollard as an authorized signer.

You already have on file specimen manual and autograph plate signatures for each of those persons named above. Card checks issued against the Payroll Fund Account will continue to be mechanically signed, and the blue-gray paper checks issued against the General Fund Account will continue to be manually signed.

Approved unanimously.

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

In accordance with the request contained in your letter of March 17, 1955, the Board approves the reappointment

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of John J. Quinn as an examiner for the Federal Reserve Bank of New York. Please advise the date upon which the appointment is made effective and also the salary rate.

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In accordance with the request contained in your letter of March 14, 1955, the Board of Governors approves the appointment of Stephen K. Frank as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date upon which the appointment is made effective and also the salary rate.

The Board also approves the designation of John F. Halligan as special assistant examiner for the Federal Reserve Bank of New York.

Approved unanimously.

Letter to Mr. Willis, Secretary, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of March 10, 1955, advising that, at the request of Mr. R. L. Garner, Vice President, International Bank for Reconstruction and Development, the services of Mr. George Garvy, Senior Economist, have been made available to the International Bank to enable him to serve as Chief Economist of a survey mission being organized by the International Bank at the request of the Government of Colombia, to study the agricultural section of that country's economy and to make recommendations for a long-range agricultural development program.

It is noted that, in Mr. Garvy's capacity as Chief Economist, it is anticipated that he would occupy a position of key importance under the head of the mission (Sir Herbert Stewart of the United Kingdom), and would serve essentially as chief of staff, with central responsibility for bringing together the work of the other experts both in formulating the substantive program and in preparing the over-all report. It is noted further that, under this arrangement, Mr. Garvy will be on leave of absence without pay for a period of approximately two and one-half months from March 14, 1955, and, after his return from Colombia, his leave will be continued on a part-time basis for an additional period of up to three months or thereabouts so

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that he may assist in the preparation of the report of the mission which will be done in Washington, D. C. It is noted also that the International Bank is prepared to pay Mr. Garvy for his services and to reimburse him for travel and other expenses in connection with his assignment to this mission.

In view of the circumstances, the Board of Governors interposes no objection to the arrangement made with respect to Mr. Garvy as described in your letter.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with the request contained in your letter of March 14, 1955, the Board approves the appointment of Richard Joseph Ginnane, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment is made effective and also the salary rate.

Approved unanimously.

Letter to Mr. Mills, Chief Examiner, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with the request contained in your letter of March 14, 1955, the Board approves the designation of Peggy M. Hall as special assistant examiner to lend clerical assistance in the examinations of the Commerce Trust Company, Kansas City, Missouri, and The International Trust Company, Denver, Colorado.

Approved unanimously.

Letter to the Board of Directors, The Waterbury Trust Company, Waterbury, Connecticut, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors approves the establishment of a branch by The Waterbury Trust Company, Waterbury, Connecticut, on Meadow Street, on a part of a property presently used for the railroad station in Waterbury, provided the branch is established within eight months from the date of this letter.

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

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

Reference is made to your letter of March 14, 1955, submitting the request of Fair Lawn-Radburn Trust Company, Fair Lawn, New Jersey, for an extension of time within which it may establish a branch at the corner of Fair Lawn Avenue and the Erie Railroad right-of-way, Radburn Section, Borough of Fair Lawn, New Jersey.

It is noted that, due to a number of unavoidable delays, construction of the branch building will not start until March 21, 1955, but the bank has been assured by the contractor that the building will be ready not later than August 1, 1955.

On the basis of the information submitted and in accordance with your recommendation, the Board of Governors extends to October 26, 1955, the time within which the subject bank may establish a branch at the location stated above under approval given by the Board in its letter of October 26, 1954.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the circumstances outlined in your letter of March 15, 1955, and the Reserve Bank's favorable recommendation, the Board of Governors further extends until September 26, 1955, the time within which The Provident Savings Bank and Trust Company, Cincinnati, Ohio, may establish a branch at the southeast corner of Colerain Avenue and Galbraith Road, Hamilton County, Ohio.

Approved unanimously.

Letter to The Gainesville National Bank, Gainesville, Georgia, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, 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

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banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Georgia, 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 Gainesville National Bank is now authorized to exercise will be forwarded to you in due course.

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

Prior to this meeting there had been circulated to the members of the Board a draft of letter to Mr. Young, President of the Federal Reserve Bank of Chicago, prepared in response to Mr. Young's letter of March 10, 1955, requesting that the Board approve the retention of Mayer, Meyer, Austrian & Platt and Holt & Kearney as special tax counsel to represent the Reserve Bank in obtaining reduction from excessive valuation of its properties for the 1955-1958 quadrennial assessment period. The attorneys' contingent fee would be 50 per cent of the first year's savings. The suggested reply would state that the Board approved retaining the above-named counsel and would note that substantially the same arrangement was approved for the preceding quadrennial assessment period.

Although recognizing the precedent that had been established in this matter and in other cases, members of the Board questioned whether it was consistent with the character of the System for a Reserve Bank to retain counsel on a contingent fee basis. In the circumstances, Chairman Martin suggested that action on the proposed letter to the Federal Reserve Bank of Chicago be deferred until the staff of the Board reviewed various



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aspects of such an arrangement and presented additional information for the Board's consideration.

This suggestion was approved unanimously.

The following draft of letter to Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, which had been circulated to the members of the Board, was presented for consideration:

This is in further reference to your letter of February 23, 1955, and its enclosures, concerning the application of Regulation Q to a time certificate deposit in the circumstances described in the copy of the letter of February 17 to the Detroit branch of your Bank from the Second National Bank and Trust Company of Saginaw, Saginaw, Michigan. The Saginaw bank stated the circumstances as follows:

"A Time Certificate of Deposit is issued which states on the face thereof that 'upon written notice of six months or more, this certificate will be redeemed for the above amount plus interest at 2 1/2% per annum'. At the time the certificate is issued, the purchaser gives a series of notices dated on the issuing date requesting payment at the end of six months, eight months, nine months, etc. Before the first notice expires, say ten days before the expiration, he will withdraw or cancel that notice, but will leave in the other notices which he will in turn withdraw or cancel ten days before their expiration. The effect of this will be to make the certificate, after it has run six months, payable on a thirty day basis if the notices are all withdrawn before they mature.

"Another method of making these certificates due on a thirty day basis after six months would be to give a series of six months notices with the notices post dated - each one month subsequent to the date of previous notices - and have the bank place them on record on each succeeding month and then have the depositor start cancelling each one about ten days before the six months are up, but leaving the one for the subsequent month on file."

It is the Board's view that, under either arrangement as described by the bank, none of a series of inconsistent notices of withdrawal outstanding at the same time would constitute a legally effective notice of withdrawal within

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the meaning of Regulation Q. Consequently, payment by the bank pursuant to any such notice that might not be cancelled would constitute payment of the deposit represented by the certificate before maturity contrary to section 4(c) of the regulation. Furthermore, any such arrangement, if permissible, would have the effect of evading the provisions of the regulation.

During a discussion of the circumstances described in the foregoing letter to Mr. Hodge, Governor Mills suggested the possibility that practices similar to the one referred to might have been followed by banks over a period of years without criticism on the part of the supervisory authorities. Following a statement by Mr. Sloan that the Division of Examinations was not aware of such a practice if it existed, and that in his opinion it would be inconsistent with the Board's Regulation Q, Governor Mills said that while he would not object to the letter to Mr. Hodge, this might be a matter into which the Division of Examinations should inquire.

Thereupon, the letter to Mr. Hodge was approved unanimously, with the understanding that, as suggested by Governor Mills, the Division of Examinations would make appropriate inquiry to ascertain the extent, if any, to which practices of the kind in question were being followed by member banks.

The following requests for travel authorization were presented:

<u>Name and title</u>	<u>Duration of travel</u>
R. F. Leonard, Director, Division of Bank Operations	March 23-25, 1955

To travel to New York, New York, to attend, as associate member, a meeting of the Subcommittee on General Arrangements, one of the subcommittees recently appointed by the Conference of Presidents of the Federal Reserve Banks to work on emergency planning for the Reserve Banks.

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Lowell Myrick, Assistant Director,  
Division of Bank Operations

March 22, 1955

To travel to Pittsburgh, Pennsylvania, to attend, as associate member, a meeting of the Presidents' Conference Subcommittee on Treasury Operations.

Frank R. Garfield, Adviser on  
Economic Research, Division of  
Research and Statistics

March 28-29, 1955

To travel to New York, New York, to attend a Special Government Seminar on Electronic Computers.

Approved unanimously.

Pursuant to the request made at the meeting on December 16, 1954, there had been prepared and circulated to the members of the Board prior to this meeting a memorandum dated March 15, 1955, from the Division of Personnel Administration regarding the advantages and disadvantages of a mandatory chest x-ray program for all employees of the Board. For reasons developed in a supplemental memorandum dated February 16, 1955, from Miss Ayers, Administrative Assistant in that Division, the memorandum took the position that it would be advisable to continue to conduct the program on a voluntary basis, but with a more intensive campaign in the hope of increasing the percentage of participation. Accordingly, the memorandum suggested that a notice signed by Chairman Martin regarding the x-ray program be sent to all members of the Board's staff and that arrangements then be made with the District of Columbia Tuberculosis Association to provide free x-rays for the Board's staff on May 10 and 11, 1955.

The matter was discussed in the light of questions which were raised as to whether the program should be mandatory as a protection to

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all of the Board's employees and Governor Balderston reviewed the reasons why the Division of Personnel Administration preferred a voluntary program. Among other things, he referred to the administrative difficulties which might arise, including the fact that if the x-rays were on a compulsory basis, the Board would have to decide what action would be taken if an employee declined to participate in the program. He felt that for the present it would be well to go only so far as to urge all employees to participate. Then, if the percentage of participation did not increase, the Board might wish to consider whether further steps should be taken.

At the conclusion of the discussion, unanimous approval was given to a notice for the signature of Chairman Martin to all members of the Board's staff reading as follows:

Free annual chest x-rays will again be available to all members of the Board and its staff. These x-rays are one of the best ways of discovering tuberculosis and other diseases in their early stages when they are most easily and quickly cured. Early detection is not only a protection for the individual but also for the persons with whom he works and the members of his family.

For these reasons, the members of the Board strongly urge that all members of the Board's organization take advantage of this opportunity.

The x-rays will be made by the District of Columbia Tuberculosis Association and the details of the time and place will be sent to you by the Division of Personnel Administration.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated March 18, 1955, recommending that the Board give its prior written consent, as required by section 18(c) of the Federal Deposit Insurance Act, to the proposed merger of The Public National Bank and Trust Company of New York,

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New York, New York, into Bankers Trust Company, also of New York City, and that the Board approve the establishment of a branch at the main office of Public National Bank and the operation of the 24 branches now operated by that institution. The memorandum stated that the proposed merger was being studied by the New York State Banking Department, that the Department's decision was expected soon, and that it was contemplated that the merger would become effective at the close of business on March 25, 1955. The members of the Board had also received copies of a memorandum from Mr. Hexter dated March 22, 1955, discussing various aspects of the matter and stating that there appeared to be no valid grounds for denying the applications in this case.

At the request of the Board, Mr. Sloan summarized the facts of the case and stated that all factors, including those with regard to assets and management, appeared entirely favorable to the Division of Examinations. Mr. Hexter said that the record before the Board was favorable, that no objection to the proposed merger had been voiced, and that the New York Reserve Bank had concluded that advantages would accrue from the proposed merger. The Reserve Bank, he pointed out, felt that the business of the two institutions overlapped only to a very slight extent, that competition locally and nationally would not be lessened, and that competition might in fact be increased to the extent that the facilities of Bankers Trust Company were carried to certain areas in New York City where Public National Bank had not been equipped to furnish such facilities. Mr. Hexter said that these arguments seemed valid and that there was nothing in the

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record to support a finding that the proposal would not be in the public interest. He pointed out that Bankers Trust Company and the Superintendent of Banks had asked the Department of Justice for a "clearance" under the applicable antitrust laws of the United States or an indication of the views of that Department as to the antitrust aspects of the proposed merger, and he suggested that the Board might wish to inquire of the Department of Justice as to the result of that request.

In response to a question by Governor Vardaman as to whether such an inquiry would be advisable from the standpoint of precedent, Mr. Vest said that inasmuch as the Board was aware that the matter had been submitted to the Department of Justice and the sole purpose of the inquiry would be to elicit information, he felt that there was no substantial reason why an informal check should not be made.

Chairman Martin then suggested that the Board's approval be given, subject to the receipt of advice of favorable action by the New York State Banking Department and on the condition that an informal check with the Department of Justice disclosed no reason why the matter should be brought back to the Board for further discussion.

There being agreement with Chairman Martin's suggestion, unanimous approval was given to a letter reading as follows to the Board of Directors, Bankers Trust Company, New York, New York, for transmittal through the Federal Reserve Bank of New York, with the understanding that it would be sent upon receipt of advice that the New York State Banking Department had approved the proposed

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merger and following an informal check with the Department of Justice:

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 merger of The Public National Bank and Trust Company of New York into Bankers Trust Company, New York, New York, and also approves the establishment of branches by Bankers Trust Company at the following locations:

Borough of Manhattan

- 37 Broad Street
- 85 Delancey Street
- 1107 Broadway
- 550 Seventh Avenue
- 501 Fifth Avenue
- 682 Broadway
- 1770 Madison Avenue
- 177 East Broadway
- 2520 Broadway

Borough of The Bronx

- 3855 Third Avenue
- 982 Southern Boulevard
- 2104 Crotona Parkway
- 256 Willis Avenue
- 855 East 149th Street
- 26 West Burnside Avenue
- 273 East 169th Street
- 299 East 204th Street
- 76 East 161st Street

Borough of Brooklyn

- 1756 Pitkin Avenue
- 47 Graham Avenue
- 8603--21st Avenue
- 317 Grand Street
- 896 DeKalb Avenue
- 574 Sutter Avenue
- 4408-10-12--13th Avenue

all in the City and State of New York, provided (a) the transaction is effected substantially in accordance with the Plan and Agreement of Merger dated February 23, 1955, as presented through the Federal Reserve Bank of New York, (b) that formal approval is obtained from the appropriate State authorities, and (c) the merger and the establishment of these branches are accomplished within six months from the date of this letter.

Messrs. Hexter and Nelson then withdrew from the meeting and Messrs. Hackley, Assistant General Counsel, and Shay, Assistant Counsel, entered the room.

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By letters dated November 22, 1954, the Board submitted to the Federal Reserve Banks, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the American Bankers Association draft amendments to its Regulations D, Reserves of Member Banks, and Q, Payment of Interest on Deposits, which would add to the present definitions of "savings deposit" a new provision under which it would be permissible for a deposit to be so classified, although not evidenced by a pass book, provided the bank reserved the right to request 30 days' advance written notice of intended withdrawal and provided withdrawals were permitted only through payments to the depositor himself. Payment to the depositor could be made over the counter, through the mails, or otherwise. In view of the favorable comments received, the staff prepared a memorandum under date of March 14, 1955, recommending that such amendments be published in the Federal Register as proposals on which comments were invited. A draft of notice for this purpose was attached to the memorandum, copies of which had been sent to the members of the Board.

Mr. Hackley reviewed the circumstances which gave rise to the suggestion that such amendments be adopted and went on to discuss the effect of the amendments. In the course of his comments he pointed out that the procedures referred to therein would be permissive rather than mandatory. He also said it had been contemplated that if the Board decided to amend its regulations, the Chairman of the Federal Deposit Insurance Corporation would present the matter to his Board for action to the



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end that the Board's regulations and the regulations of the Corporation would be identical and become effective simultaneously. While it had now developed that the Corporation was preparing a revision of its regulations which it expected to issue next week and in which it was understood that the amendments in question would be incorporated, he felt that it would be desirable for the Board to publish a notice in the Federal Register. In response to a question, Mr. Shay stated that the only reservation concerning the advisability of the amendments was on the part of the Federal Reserve Bank of Chicago, and that that Bank's comments apparently arose out of the fact that, inasmuch as the question had not been raised in that District, the Bank had some doubt as to the necessity of the amendments. However, five out of six banks in that District with whom the Reserve Bank had discussed the matter offered no objection to the amendments.

In a discussion which followed, reference was made to the practices of savings and loan associations with regard to making payments to shareholders. Although there was no objection on this account to publishing the proposed amendments to the Board's regulations, it was suggested that it might be desirable for the staff to accumulate information concerning the procedures followed by savings and loan associations in view of the competitive aspects involved.

At the conclusion of the discussion, unanimous approval was given to a letter reading as follows to Mr. B. R. Kennedy, Director, Division of the Federal Register, The National Archives, Washington, D. C.:

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In compliance with the provisions of the Federal Register Regulations and section 4 of the Administrative Procedure Act and the Board's Regulations issued pursuant thereto, there are transmitted for filing in your Division and for publication in the Federal Register, an original and three certified copies of a Notice of Proposed Rule Making relating to Title 12, Part 204 - Reserves of Member Banks, and Part 217 - Payment of Interest on Deposits. The Notice is of the type described in 1 CFR 1.44.

In this connection, unanimous approval was also given to a letter reading as follows to the Presidents of all Federal Reserve Banks, with the understanding that somewhat similar letters would be sent to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the American Bankers Association:

This is in further reference to the Board's letter to all Reserve Banks of November 22, 1954, with which was enclosed a draft of possible amendments which would add to the present definitions of "savings deposits" in both Regulation D and Regulation Q provisions which would permit deposits, in certain circumstances, to be classified as "savings deposits" although not "evidenced by a pass book."

The Board appreciated your comments in reply to its letter. Changes in the regulations along the lines of the draft were viewed favorably by most of the Reserve Banks and by the American Bankers Association, and without objection by the Comptroller of the Currency. The Federal Deposit Insurance Corporation indicated a desire to make an identical, contemporaneous change in its regulation if and when the Board should amend its regulations.

There is enclosed a copy of a notice of proposed rule making which has been submitted for publication in the Federal Register. You will note that two clarifying changes have been made in the draft amendments as contained in the notice.

The Board will appreciate your forwarding to it such comments as you may receive in reply to the published notice. You will note that all comments submitted pursuant to the notice should be received not later than April 25, 1955.

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

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The following draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., which had been circulated to the members of the Board, was presented for consideration:

This is in response to your communication of March 7, 1955 requesting an expression of the Board's views with respect to a draft bill submitted by the Department of Agriculture which would amend the Bankhead-Jones Farm Tenant Act, as amended.

The letter of explanation which the Department of Agriculture has submitted with the bill indicates that the proposal has two principal objectives--(1) to simplify the administration of the insured mortgage provisions of the Act, and (2) to encourage the use of private capital and decrease the use of direct Government funds in the program.

While the Board appreciates the opportunity to state its views, this bill deals mainly with matters which would not directly affect the Board's responsibilities and for that reason it has no comments to make on the specific provisions of the draft bill.

Approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of a letter dated March 18, 1955, from Senator Capehart, a member of the Banking and Currency Committee, referring to that Committee's study of the stock market and stating his desire to obtain certain information concerning the use of bank credit and possible violation of the Board's 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 and Company proxy contest. The views of the Board also were requested with respect to whether any legislation was needed to deter unlawful use of credit in proxy contests.

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There was a discussion of the reply which might be made to Senator Capehart's letter, and on the basis of comments made it was understood that the staff would prepare a draft of reply for consideration at another meeting of the Board.

Messrs. Thurston, Sloan, and Cherry then withdrew from the meeting.

Pursuant to Governor Vardaman's request there had been placed on the agenda for this meeting a discussion of the discount rate at the Federal Reserve Banks.

Governor Vardaman said that he had no recommendation at this time as to the appropriateness of the current discount rate but merely had felt that the subject was one which deserved discussion by the Board.

Mr. Young then reviewed the extent of current borrowing by member banks from the Federal Reserve Banks and at the conclusion of his remarks Chairman Martin suggested that there be a review by the staff of the economic and business situation at the meeting on Friday, March 25, 1955.

This suggestion was approved unanimously.

Governor Mills referred to the discussion at the meeting of the Board with the Presidents of the Federal Reserve Banks on March 3, 1955, concerning a reexamination of the Retirement System of the Federal Reserve Banks and to the understanding at that time that the Executive Committee of the Retirement System would consider the retaining of experts to advise with regard to the selection of consultants who would undertake the study. He recalled that at that meeting and in a subsequent conversation with

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Mr. Bryan, Chairman of the Executive Committee, Governor Balderston mentioned several persons who might be considered. He then said that the Executive Committee was to hold a meeting in New York on Wednesday, March 30, and that President Bryan felt it would be helpful if Governor Balderston could be present.

Following some discussion of the advisability of having any member of the Board participate in the arrangements at this stage, Chairman Martin said that, as he understood it, Governor Balderston would attend only to observe and offer such guidance as he might be prepared to give personally with respect to the matters being considered by the Executive Committee.

At the conclusion of the discussion, it was understood that Governor Balderston would attend the meeting of the Executive Committee on March 30.

Governor Robertson reminded the Board that representatives of the investment bankers were to meet with the Board tomorrow afternoon at 3:00 p.m. to present their views on the proposal that commercial banks be authorized to underwrite and deal in certain revenue bonds. He said he anticipated that representatives of the commercial banking interests also would request a meeting with the Board.

It was agreed that if such a request were made by the commercial bankers, an invitation should be extended to them to meet with the Board at a mutually convenient time.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 18, 1955, were approved unanimously.

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The meeting then adjourned.

Secretary's Note: The following letter was sent today to the Honorable J. W. Fulbright, Chairman, Committee on Banking and Currency, United States Senate, this being the same letter, except for the final paragraph, that was sent to the Bureau of the Budget for comment on February 2, 1955:

This is in response to your Committee's two letters of January 17, 1955, requesting the opinion of the Board with respect to the bills S. 381 and S. 383. Since both of these bills relate to the provision of financing for small business, they are being treated together.

In general, S. 381 would provide for the formation of national investment companies, either by the Federal Reserve Banks or by groups of not less than five private persons, each such company to have a minimum capital of \$5,000,000. The organization of such companies would be subject to the approval of the Board of Governors and their operations would be subject to regulation by the Board. The companies would be authorized to make loans to, and purchase common and preferred stock of, eligible business enterprises; and for this purpose each company would be authorized to borrow money by the issuance of bonds and other obligations up to the amount of its capital and surplus.

S. 383 would authorize the Board of Governors to insure qualified lending institutions with respect to loans made to small business enterprises up to an aggregate amount of \$250,000,000, subject to increase by the President by an additional \$200,000,000. Insurance for any one lending institution would be limited to 10 per cent of its total portfolio of business loans; and the insurance could not exceed the lesser of 90 per cent of the unpaid balance of any loan or the amount of an "insurance reserve" to the credit of the lending institution. No insured loan could have a maturity of more than 5 years and 32 days.

Basically, the Board believes that any proposals for Government aid in providing credit to business should be premised on a determination that there is an existing or prospective need for credit on the part of business

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enterprises which cannot be met by commercial banks or other private lending institutions. On the basis of available information, it is questionable whether there is any real deficiency in the adequacy of short-term and intermediate credit for small businesses. If there is any gap today in institutional means for providing necessary financing for business enterprises, it would appear to relate to long-term debt and equity capital. For this reason, if consideration is to be given to any further legislation in this field, the Board feels that it should be along the general lines of S. 381 providing for the organization of national investment companies.

However, in the event favorable consideration should be given by the Congress to the enactment of any legislation of this kind, it is the considered opinion of the Board that responsibility for supervision and regulation of such investment companies should not be lodged in the Board of Governors but rather should be vested in some other agency of the Government more primarily concerned with the problems involved in regulating capital financing. The Federal Reserve System is charged by Congress with the important responsibility of regulating the availability, cost, and flow of credit with a view to fostering stable growth of the economy. The exercise of this primary function of the System would, we believe, be hampered and tend to be less effective if the System should become engaged in any extensive program for the financing of business enterprises. Any involvement of the System in large-scale activities in the financing of business could make it more difficult for the System to institute general credit policies in the national interest.

For the reasons above indicated, the Board would be opposed to the enactment of S. 383 providing for the insurance of business loans by the Board of Governors, but would not be disposed to raise objection to legislation along the lines of S. 381, setting up national investment companies to provide long-term financing, provided the operation of such companies is not placed under the supervision of the Federal Reserve System.

It is noted that S. 381 contains provisions which would repeal the present limited business loan authority of the Federal Reserve Banks under section 13b of the Federal Reserve Act and provide for the payment to the Treasury of amounts totaling approximately \$27,500,000 which have heretofore been paid to the Reserve Banks by the Treasury in connection

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with operations under that section. The authority of the Reserve Banks under this section was granted in the 1930's under emergency conditions and has not been extensively used in recent years. In keeping with the views heretofore expressed as to the inappropriateness of the System participating in the financing of business enterprises, the Board would favor the repeal of this authority and the payment to the Treasury by the Reserve Banks of the amounts above mentioned, as provided in S. 381.

The Bureau of the Budget has advised that it has no objection to the submission of this report.



Secretary