

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 25, 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. Riefler, Assistant to the Chairman  
 Mr. Vest, General Counsel  
 Mr. Hostrup, Assistant Director, Division of Examinations  
 Mr. Solomon, Assistant General Counsel  
 Mr. Cherry, Legislative Counsel

The following members of the staff of the Division of Research and Statistics also were present:

Mr. Young, Director  
 Mr. Garfield, Adviser on Economic Research  
 Miss Burr, Assistant Director  
 Mr. Koch, Assistant Director  
 Mr. Gehman, Chief, Business Conditions Section  
 Mr. Jones, Chief, Consumer Credit and Finances Section  
 Mr. Miller, Chief, Government Finance Section  
 Mr. Weiner, Chief, National Income, Money-flows, and Labor Section  
 Mr. Simpson, Acting Chief, Business Finance and Capital Markets Section  
 Mr. Allen, Economist  
 Miss Dingle, Economist  
 Mr. Trueblood, Economist  
 Mr. Wernick, Economist  
 Mr. Wood, Economist

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The representatives of the Division of Research and Statistics presented a review of business and economic developments, at the conclusion of which they withdrew from the meeting.

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:

Memorandum dated March 16, 1955, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of William J. Smith as Cafeteria Laborer in that Division, on a temporary basis for a period of two months, with basic salary at the rate of \$2,552 per annum, effective as of the date upon which he enters upon the performance of his duties.

Approved unanimously.

Memorandum dated March 15, 1955, from Mr. Bethea, Director, Division of Administrative Services, recommending that the basic salary of Donald B. Fitzhugh, Operator (Tabulating Equipment) in that Division, be increased from \$4,170 to \$4,330 per annum, effective March 27, 1955, incident to his promotion to the position of Tabulation Planner.

Approved unanimously.

Letter to Mr. K. L. Scott, Director, Agricultural Credit Services, Department of Agriculture, Washington, D. C., reading as follows:

This is in response to your letter of March 7 suggesting that representatives of the Board of Governors attend the conference which has been arranged in your office on April 4 with the Legislative Committee of the American National Cattlemen's Association at which they will discuss the two resolutions relative to agricultural credit adopted by the Association at its annual convention in January of this year.

It is understood that it would be expected that the representatives of the Board would be prepared, should the need arise, to make a general statement with respect to the relationship of the Federal Reserve System to the overall agricultural credit picture and the basis used in the

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appraisal of cattle loans during the examinations of member banks and that, should any questions of policy arise involving the Federal Reserve System, they would be submitted to the Board of Governors subsequently for consideration.

Arrangements have been made for Mr. Philip T. Allen, Economist in the Board's Division of Research and Statistics, and Mr. Fred A. Nelson or Mr. Henry Benner, Assistant Directors of the Division of Examinations, to be present at the conference.

Approved unanimously.

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

Reurtel March 22, 1955, Board approves designation of Stanley Andrews as special assistant examiner for the Federal Reserve Bank of Kansas City to lend clerical assistance in examinations of Commerce Trust Company, Kansas City, and The International Trust Company, Denver.

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

Reference is made to your letters of March 10 and 16, 1955, regarding the proposed change in the location of the Broadmoor Branch of the Progressive Bank and Trust Company, New Orleans, Louisiana, from 3401 South Broad Street to the corner of Broad and Erato Streets, New Orleans, Louisiana, which has been approved by the State Bank Commissioner.

Based on the map submitted it appears both locations are in the same immediate neighborhood, and you state the branch will continue to serve the same general trade area it is now serving and that the competitive situation will not be affected because there are no other banking offices in the immediate vicinity at the present time. In the circumstances, it is the Board's view that the proposed change constitutes the mere relocation of an existing branch within the exceptive language of paragraph 7 of Section 8(b) of

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Regulation H rather than the establishment of a new branch subject to its approval. Please advise the trust company accordingly.

Approved unanimously.

Letter to the Board of Directors, Southern Arizona Bank and Trust Company, Tucson, Arizona, reading as follows:

The Board of Governors approves the establishment of a branch by Southern Arizona Bank and Trust Company in the vicinity of Swan Road and Broadway, in an unincorporated area east of Tucson as a successor to the existing Alvernon-Broadway office, provided the change in location is accomplished within one year from the date of this letter.

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

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

Reference is made to your letter of March 14, 1955, submitting a request from the Security Trust & Savings Bank of San Diego, San Diego, California, that the Board waive a condition concerning the carrying value of fixed assets imposed when it approved the absorption of The Border Bank, San Ysidro, California, and authorized the establishment of a branch in San Ysidro.

The Board has given careful consideration to this request and has concluded it should be denied. As you are aware, it has been a policy of the Board to require that fixed assets acquired in the absorption of banks must not be carried on the books of the purchasing bank at values in excess of their depreciated value for tax purposes. This policy is based upon principle and has no relationship to the intrinsic or utility value to the bank. In this connection, the selling bank, as a going concern, would not be permitted to write up the value of such assets, and it is believed it would not be reasonable to permit the purchasing bank to effect such a write-up on its books or those of a subsidiary.

Please advise the bank of the Board's decision.

Approved unanimously.



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At the meeting on February 25, 1955, consideration was given to a draft of reply to a letter dated January 25, 1955, from Mr. Floyd M. Call, Executive Manager of the Florida Bankers Association, inquiring as to the Board's views with respect to the legality or the propriety of the practice whereby "so-called banking groups operating here in Florida have seen fit to bring together the asset, liability, and capital structure figures from each of their individual banks into one consolidated balance sheet for the purpose of newspaper publication". At that time it was agreed that before any reply was sent the views of the Comptroller of the Currency and the Federal Deposit Insurance Corporation should be obtained and Counsel should consider whether there might be any reason to bring the practice referred to by Mr. Call to the attention of the Federal Trade Commission. The requested inquiries were made and prior to this meeting memoranda from Mr. Sloan, Director, Division of Examinations, and Mr. Hackley, Assistant General Counsel, dated March 11 and March 21, 1955, respectively, had been circulated to the members of the Board. On the basis of the information now available, it was suggested that it would still be appropriate to send to Mr. Call the reply which previously was submitted for the Board's consideration.

Governor Robertson commented on the situation, stating that the advertising was somewhat misleading because it indicated that the resources of all the banks in the group were behind each bank, but that on the other hand the practice appeared to involve no evasion or violation of legal

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requirements. He further stated that all of the banks in the group to which Mr. Call probably had reference (the Florida National Group) were either national or nonmember State institutions so that, despite informal advice to the Board that the Office of the Comptroller of the Currency had received, and replied to, a similar letter from Mr. Call, it seemed appropriate to suggest to Mr. Call that the matter be pursued with the agency or agencies having primary supervision over the banks in question. In the circumstances, he proposed that the reply to Mr. Call be revised to read as follows:

This refers to your letter of January 25, 1955, addressed to Mr. William McC. Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, in which you state that for a period of years a number of so-called banking groups operating in Florida have seen fit to bring together the asset, liability, and capital structure figures from each of their individual banks into one consolidated balance sheet for the purpose of newspaper publication. You inquire whether the practice is in conflict with any law, rule, or regulation of the Board and, if not, what our reaction is as to the propriety of the procedure.

The Board has asked me to inform you that while it considers such a practice to be undesirable and possibly misleading to the public, it is not technically a violation of any statute administered by the Board. If the Board is correct in its assumption as to the group you had in mind when writing the letter, it wishes to point out that all of the banks in that group are either national banks or state nonmember banks, and therefore your inquiry perhaps should be directed to the agency or agencies having primary supervision over such banks.

Following a discussion, the letter proposed by Governor Robertson was approved unanimously, with the understanding that a copy would be sent to the Federal Reserve Bank of Atlanta.

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There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas approving the establishment without change by the Federal Reserve Bank of St. Louis on March 21, by the Federal Reserve Bank of Kansas City on March 23, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas on March 24, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Following the discussion at the meeting on March 23, 1955, there had been sent to the members of the Board alternative drafts of a letter to Senator Homer Capehart replying to the Senator's letter of March 18, 1955, in regard to possible violations 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 purchase of stock of Montgomery Ward & Company in a proxy contest.

Following a discussion, unanimous approval was given to a letter for the signature of Chairman Martin to Senator Capehart in the following form, with the understanding that in addition to sending the letter Chairman Martin would discuss the matter with Senator Capehart at an appropriate time:

The Board of Governors has given careful consideration to your letter of March 18 in regard to possible violation of Regulation U in connection with the purchase



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of stock of Montgomery Ward & Company in a proxy contest.

For many years it has been the regular practice for bank examiners in the course of examinations to investigate whether loans have been granted in violation of Regulation U. This procedure is designed to assure general compliance with the regulation.

Over the years few violations have been found and of these only a very small percentage involved loans supported by falsified statements as to the purpose of the loans.

The Board believes that the procedure as outlined has been adequate in enforcing compliance with the regulation. It is the Board's view, and no doubt your own, that a departure from this procedure would not be justified in the absence of specific information as to the identity of banks that might have violated the regulation. No specific information has so far come to the attention of the Board that would enable examiners to ascertain where suspected violations may have occurred and therefore we are not in a position to comply with your requests.

The Board wishes to be alert to any violations of law or regulations and, therefore, if you will furnish the Board with facts that would serve as a basis for a reasonable belief that a violation of Regulation U has occurred at a particular bank or banks under its supervision, the Board will institute appropriate investigation of the matter.

The problem you refer to is a complex one and raises questions as to what is the best means of serving the public interest; that is, whether stricter requirements should be applied to the lending operations of banks. On balance, however, it is the Board's conclusion that the present procedure is adequate and we have no recommendations for additional legislation to offer at this time.

If you would care to go into this matter further, I would of course be very glad to discuss it with you at your convenience.

Messrs. Thurston, Solomon, and Cherry then withdrew from the meeting and Messrs. Horbett, Assistant Director, Division of Bank Operations, and Hackley, Assistant General Counsel, entered the room.



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In accordance with the understanding at the meeting on February 8, 1955, Governor Robertson had sent to Mr. H. E. Cook, Chairman of the Federal Deposit Insurance Corporation, a letter dated February 9, 1955, asking the Corporation's views with respect to the possibility of bringing into conformity the regulations of that Corporation and of the Board with respect to the absorption of exchange charges by banks. Chairman Cook replied under date of March 10, 1955, to the effect while the Federal Deposit Insurance Corporation was anxious to cooperate in such matters of mutual concern within the limits of its authority, it had concluded, after exhaustive consideration of the legal elements in the situation, that it had "no alternative but to abide by our historic position on this controversial issue". In the circumstances, there had been sent to the members of the Board, with a memorandum from Mr. Hackley dated March 23, 1955, a draft of letter to the Federal Reserve Banks discussing various aspects of the problem and raising for consideration the possibility of having representatives of the Reserve Banks and the Office of the Comptroller of the Currency approach member banks whose practices create a problem in this respect and frankly explain why such practices tend to encourage the imposition of exchange charges and to work against the banks themselves and the public, with the hope that the banks might be persuaded to discontinue the practices in question. The letter would state that before taking up the proposal with the Comptroller of the Currency, the Board would like to have the Reserve Banks' views as to whether such an approach would be feasible and would serve a useful purpose.

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In discussing the problem and the proposed communication to the Federal Reserve Banks, Governor Robertson said that if any legislation were to be sought it would be desirable to have the support of the banking industry. He also said that the Comptroller of the Currency was understood to be anxious to join with the Federal Reserve in seeking a solution to the problem but that for certain unrelated reasons the Comptroller did not know whether he would be in a position to participate actively in any legislative program at the present time. Governor Robertson went on to say that yesterday he received a telephone call from Mr. Johns, President of the Federal Reserve Bank of St. Louis, who said that member banks in Memphis, Tennessee, had complained that they were losing accounts because of the absorption of exchange by St. Louis banks, and that there appeared to be other evidences of violation of the so-called "two dollar rule" which was set forth in the Board's circular letter of June 22, 1945. He said that President Johns was informed of the approach suggested in the proposed letter to the Federal Reserve Banks and that he favored it. Governor Robertson further stated that in North Carolina a group was reported to have raised funds with a view to putting par clearance on the statutes of that State within two years. With regard to the form of communication to the Federal Reserve Banks, Governor Robertson suggested that the proposed letter be put into the form of a memorandum from the Board to the Reserve Banks and that the memorandum be transmitted with a covering letter from the Secretary of the Board indicating that the

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Board had requested transmission of the memorandum for prompt consideration and reply.

Following a discussion, unanimous approval was given to a memorandum from the Board to the Presidents of all Federal Reserve Banks reading as follows, with the understanding that it would be sent to the Federal Reserve Banks with a transmittal letter of the kind suggested by Governor Robertson:

On the basis of the survey relating to absorption of exchange charges which was made last year by the Federal Reserve Banks at the request of the Board, this matter was again taken up with the Federal Deposit Insurance Corporation by the Board in an effort to bring the regulations of that agency and the Board into conformity on this point. It was pointed out in a memorandum enclosed with the Board's letter to Chairman Cook of the Federal Deposit Insurance Corporation that some member banks suffer a competitive disadvantage by reason of the different interpretations placed by the two agencies upon substantially similar provisions of law.

Chairman Cook's reply of March 10, 1955, a copy of which is enclosed, indicates that the Corporation has concluded that it has no alternative but to abide by its historic position on this issue and that it must pursue its present course unless and until either Congress or the several States enact appropriate legislation to deal with this problem. In this connection, as you know, some States in recent years have legislated to prohibit exchange charges by the banks of such States, largely as the result of efforts of business and trade associations and with cognizance of the historical background of this matter.

It must be recognized that the issue relating to absorption of exchange charges is closely related to the propriety of exchange charges themselves. Prominent in the historical background, of course, is the fact that the practice of non-par banks of deducting exchange charges from the face amounts of checks drawn on them when presented through the mails for payment has frequently been criticized as unwarranted and as causing such checks in the hands of payee-creditors to be worth less than their purported value. Generally, the payees have registered no complaint since usually the exchange



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charge is absorbed by some bank in the chain of collection. However, in order to secure such absorption and avoid passing the charge back to the payee, it often happens that such checks must be circuitously routed with resulting unnecessary delay in collection and payment. Although nonpar banks have contended that exchange charges represent an essential source of revenue, nevertheless, in some instances in which banks have abandoned exchange charges and have instituted a system of service charges appropriately levied against their own depositors, it has been reported that their profits increased rather than diminished as a result.

It may be true, as stated by Mr. Cook, that absorption of exchange antedated the Federal Reserve System. On the other hand, when Congress in 1933 prohibited member banks from paying interest on demand deposits "directly or indirectly, by any device whatsoever", certain banks which previously had paid interest on deposits and had not absorbed exchange, began to solicit accounts by offering to absorb exchange charges. In 1944, when Congress had under consideration a bill (subsequently defeated) which would have expressly declared that absorption of exchange should not be considered a payment of interest, Senator Glass, who had sponsored the 1933 legislation, declared that that bill, if enacted, would "emasculate the statute prohibiting the payment of interest by banks on demand deposits".

With this background in mind, the Board is considering whether it would be desirable for representatives of the Federal Reserve Banks and of the Office of the Comptroller of the Currency at approximately the same time to approach those member banks whose practices create a problem in this respect, either through direct absorption of exchange or through arrangements with nonmember banks for the absorption of exchange on nonpar items, and frankly explain to such member banks how such practices tend to encourage the imposition of exchange charges and to work against the interests of the banks themselves and of the public, with the hope that the banks approached may be persuaded to discontinue the practices in question. However, before taking this proposal up with the Comptroller of the Currency, the Board will appreciate an expression of your views as to whether such a concerted and simultaneous approach to the member banks involved would be feasible and serve a useful purpose.

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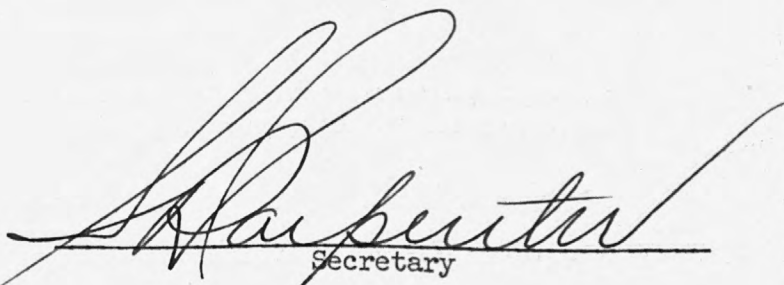
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In the meantime, due regard should continue to be given to the Board's circular letter of June 22, 1945, in which, as an administrative measure, the Board stated that the absorption of exchange in amounts not exceeding \$2 a month for any one customer would be considered trivial and would be disregarded, provided the member bank maintains such records as the appropriate supervisory authority may require for reconciliation purposes. The Board believes that it would not be desirable to modify the provisions of that letter at this time.

In addition, if you should at any time learn of any action or expression of views by State bankers associations or business or trade associations regarding this problem, the possibilities of State legislation, or the sponsorship by such groups of any Federal legislation on the subject, it will be appreciated if you will promptly advise the Board. The Board would also, of course, wish to be kept informed of any other significant developments relating to the problem of a kind such as those covered by the recent survey.

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

The meeting then adjourned.



Secretary