

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 31, 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. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Solomon, Assistant General Counsel
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:

Memorandum dated March 24, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic salary of Lucile R. MacLean, Librarian in that Division, from \$4,160 to \$4,330 per annum, effective April 10, 1955.

Approved unanimously.

Memorandum dated March 24, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Irving Schweiger, Economist in that Division, be accepted effective March 31, 1955.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. Gerald H. Greene, Assistant Cashier, Buffalo Branch, for the period March 21, 1955 through December 31, 1955, at his present rate of \$10,250 per

3/31/55

-2-

annum, which is the rate fixed by the Board of Directors as indicated in your letter of March 22, 1955.

Approved unanimously.

Letter to the Board of Directors, The Connecticut Bank and Trust Company, Hartford, 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 Connecticut Bank and Trust Company, Hartford, Connecticut, in the Town of East Hartford, Connecticut, at the northwest corner of Main and Garvan Streets, known as 809 Main Street, provided the branch is established within nine months from the date of this letter.

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

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

Reference is made to your letter of March 22, 1955, regarding the request of the Asbury Park and Ocean Grove Bank, Asbury Park, New Jersey, for an extension of time within which to establish a branch on the west side of Railroad Avenue, between Bangs Avenue and Summerfield Avenue, Asbury Park, New Jersey.

After consideration of the information available, the Board concurs in your recommendation and extends to May 18, the time within which the Asbury Park and Ocean Grove Bank may establish the above branch, as originally approved in the Board's letter of October 18, 1954.

Approved unanimously.

Letter to the Board of Directors, Federation Bank and Trust Company, New York, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the

3/31/55

-3-

establishment of a branch by Federation Bank and Trust Company, New York, New York, at 10 Columbus Circle, New York, New York, provided the branch is established within one year from date of this letter.

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

Letter to the President and Directors of the Manhattan Company,
(Bank of the Manhattan Company), New York, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by President and Directors of the Manhattan Company (Bank of the Manhattan Company), New York, New York, at 711 Third Avenue, in the Borough of Manhattan, New York, New York, provided the branch is established within 18 months from the date of this letter.

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

Letter to the Board of Directors, State Bank of Albany, Albany,
New York, reading as follows:

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 Merchants National Bank in Plattsburg, Plattsburg, New York, into State Bank of Albany, Albany, New York, and also approves the establishment of a branch at 24 Brinkerhoff Street, Plattsburg, 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) the bank premises to be acquired in the transaction are not placed on the books of the continuing bank at an amount in excess of the depreciated value as computed for income tax purposes; (c) that formal

3/31/55

-4-

approval is obtained from appropriate State authorities; and (d) the merger and establishment of the branch is accomplished within six months from the date of this letter.

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

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

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch by The Easton Trust Company, Easton, Pennsylvania, at 516 March Street, Easton, Pennsylvania, provided the branch is established within six months from the date of this letter.

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

Letter to the Board of Directors, Peoples Bank and Trust Company, Cedar Rapids, Iowa, reading as follows:

The Board of Governors of the Federal Reserve System approves the application of Peoples Bank and Trust Company, Cedar Rapids, Iowa, for stock in the Federal Reserve Bank of Chicago, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

3/31/55

-5-

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.
3. Prior to admission to membership the bank shall submit satisfactory evidence that paragraph Second of the trust agreement dated November 17, 1926, between stockholders of the bank and certain named trustees, has been amended to eliminate the requirement that stock of the bank may not be transferred unless a proportionate share of the stockholders' beneficial interest in stock of Peoples Mortgage and Investment Company is transferred, and the endorsement on the stock certificates of the bank to this effect has been eliminated.
4. Prior to admission to membership, the bank as trustee of its employees' Retirement Fund shall eliminate from the assets of such fund the mortgage of Peoples Mortgage and Investment Company in the amount of \$55,000.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, as amended effective September 1, 1952, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution, together with advice of compliance with the conditions to be complied with prior to admission to membership, should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal

3/31/55

-6-

Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 60 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Approved unanimously, together with a letter to Mr. Young, President, Federal Reserve Bank of Chicago, reading as follows:

The Board of Governors of the Federal Reserve System approves the application of Peoples Bank and Trust Company, Cedar Rapids, Iowa, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter, which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banking for the State of Iowa, for his information.

The report of examination of the trust department discloses exceptions excessive in volume indicating a general laxity in the discharge of fiduciary responsibilities which cannot be condoned. In addition, the acquisition from the affiliated Peoples Mortgage and Investment Company for investment of funds of the bank's

3/31/55

-7-

Retirement Fund of a mortgage secured in part by a portion of the bank building and in part by adjoining vacant lots utilized for bank customer parking, all under lease to the bank, involves a conflict of interest and an element of self-serving which is not compatible with sound trust administration. While it is noted that improvement in administration of the bank's fiduciary affairs may be expected as a result of the appointment early this year of Trust Officer Sagers, a first step to ensure satisfactory attention to trust operations and the adoption of policies wholly consistent with recognized principles involved in the fiduciary relationship would seem to require elimination of the virtual one-man control of fiduciary activities by President Welch and assumption by the directors of their proper responsibilities in this area. Close supervisory attention to the administration of this bank's trust business would seem essential.

Letter to the Board of Directors, Old Kent Bank, Grand Rapids, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch on Wealthy Street, S. E., between Lovett Avenue, S. E., and Lakeside Drive, S. E., in East Grand Rapids, Michigan, by the Old Kent Bank, provided the branch is established within one year from the date of this letter.

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

Letter to Mr. James E. Baum, Deputy Manager, American Bankers Association, 12 East 36 Street, New York, New York, reading as follows:

Reference is made to your letter of February 16, 1955, requesting a list of defalcations amounting to \$10,000 or more reported by State member banks during the six months ended December 31, 1954.

There is enclosed a list showing five cases reported by the Board of Governors to the Attorney General of the United States involving possible criminal

3/31/55

-8-

violations where the amounts were \$10,000 or more. It is hoped that this information is in such form as to be suitable for the purposes of your Insurance and Protective Committee.

Approved unanimously.

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

Board will interpose no objection to your Bank's calling for bids for the proposed alterations to the head office building as described in your letter of March 2, 1955 and the related plans and specifications.

In accordance with customary procedure, a summary report of bids should be forwarded to Board, together with recommendation of Bank as to acceptance.

Your letter reports that on advice of its architect, Bank is contemplating a contract with fixed fee and guaranteed maximum cost. Board will interpose no objection to that type of contract if Directors determine that such type of contract would be to best interest of Bank, provided principle of competitive bidding is maintained.

Approved unanimously.

Mr. Nelson then withdrew from the meeting.

There had been circulated to the members of the Board a draft of letter to the Honorable Warren Olney III, Assistant Attorney General, Criminal Division, United States Department of Justice, (Attention: Mr. Rufus D. McLean), reading as follows:

Receipt is hereby acknowledged of your letter of March 21, 1955 enclosing a copy of Mr. Atterbury's letter of March 1, 1955 to you regarding the prosecution of Personal Finance Company of New York for alleged violations of Regulation W. Your letter to the Board asks for information on the legislative history of Regulation W, as well as any comments we may have on the decision in United States v. Universal Credit Corporation, 344 U. S. 218, on which the defendant is relying.

3/31/55

-9-

Regulation W was originally issued August 21, 1941 pursuant to Executive Order 8843 dated August 9, 1941. That Executive Order was issued pursuant to section 5(b) of the Trading With The Enemy Act of October 6, 1917. Section 5(b) provided:

"That the President may investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, export or earmarkings of gold or silver coin or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States), and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country, whether enemy, ally of enemy or otherwise, or between residents of one or more foreign countries, by any person within the United States; and he may require any such person engaged in any such transaction to furnish, under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed."

The authority to issue the regulation was terminated by the Act of August 8, 1947.

The Joint Resolution of August 16, 1948 authorized the Board to reinstate consumer credit controls under Executive Order 8843. The relevant part of the Resolution provided:

"Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to protect the Nation's monetary, banking, and credit structure, and interstate and foreign commerce against increased inflationary pressures, the Board of Governors of the Federal Reserve System are authorized, notwithstanding the Act of August 8, 1947 (Public Law 386, Eightieth Congress), to exercise, up to and including June 30, 1949, consumer-credit controls, in accordance with and to carry out the purposes of Executive Order Numbered 8843 (August 9, 1941) insofar as it relates to installment credit.

3/31/55

-10-

"All the present provisions of sections 21 and 27 of the Securities Exchange Act of 1934, as amended (relating to investigations, injunctions, jurisdictions, and other matters), shall be as fully applicable with respect to the exercise by the Board of Governors of consumer installment credit controls as they are now applicable with respect to the exercise by the Securities and Exchange Commission of its functions under that Act, and the Board shall have the same powers in the exercise of such consumer installment credit controls as the Commission now has under the said sections."

This authority terminated by its own terms on June 30, 1949. The Defense Production Act of 1950 authorized the Board to regulate consumer credit again according to Executive Order 8843. The statutory provision read:

"Sec. 601 To assist in carrying out the objectives of this Act, the Board of Governors of the Federal Reserve System is authorized, notwithstanding the provisions of Public Law 386, Eightieth Congress (61 Stat. 921), to exercise consumer credit controls in accordance with and to carry out the provisions of Executive Order Numbered 8843 (August 9, 1941) until such time as the President determines that the exercise of such controls is no longer necessary, but in no event beyond the date on which this section terminates."

Consequently, there was no legislative history when the regulation was originally issued in 1941 because there was no Congressional action at that time. On the two subsequent occasions when the Board was authorized to regulate consumer credit, Congressional action consisted simply in authorizing the regulation of credit pursuant to Executive Order 8843, and there is no discussion in the Committee Reports, and in fact there was no occasion for any discussion of the question of "duplicity", which, as applied to Regulation W, would mean whether a person who sold two separate articles to two separate persons, both transactions being in violation of Regulation W, could be convicted on two counts, or, as is alleged in the case of Personal Finance Company, whether several hundred separate loans to several hundred separate persons, each loan being in violation of the regulation and each being falsely recorded on the books of the corporation (or not recorded at all) in an attempt to conceal the violation, should be regarded as a single violation.

3/31/55

-11-

In United States v. Universal Credit Corporation the employer was charged with separate violations for each week during which it underpaid an employee, but the Court reasoned that all these underpayments were the result of a single "erroneous managerial decision" placing the employee in the wrong category. The Court, therefore, held that the employer should be charged with only one offense. This reasoning would not seem to be applicable to a series of violations of the kind alleged in the case of Personal Finance Company, because each of the loans was a separate transaction, with a separate customer. Since the alleged violations occurred in separate transactions they could not have all been the result of a single "managerial decision."

As you undoubtedly know, the Board of Governors forwarded eighty Regulation W cases to your Department for such criminal proceedings as the Attorney General might deem proper. We understand there were fifty-five or more convictions and one acquittal, but, as far as we know, the question of "duplicity" was never raised in any case.

We hope that this information will be of some assistance to Mr. Atterbury.

In response to an inquiry by Governor Balderston concerning the practice with regard to prosecution of alleged violations of Regulation W, Consumer Credit, reference was made to the position taken by the Board that after referral of a case to the Department of Justice, it should be within the determination of that Department as to what action was taken in prosecuting the case and bringing it to a conclusion. It was noted, however, that the Board and the Federal Reserve Banks are expected to give the Department of Justice, upon request, any assistance required in getting a case ready for trial and that the proposed letter to the Assistant Attorney General was in the nature of providing such assistance. Mr. Solomon stated that it had been the practice of the Legal Division not to urge action on Regulation W cases after they had been referred to the

3/31/55

-12-

Department of Justice.

Thereupon, the letter to Mr. Olney was approved unanimously in the form set forth above.

Consideration was given to a draft of letter to the Bureau of the Budget transmitting for comment a report to the Honorable J. Percy Priest, Chairman of the House Committee on Interstate and Foreign Commerce, prepared in response to his letter of March 15, 1955, requesting the Board's views on Bill H. R. 4787, which would create a Committee on Railroad Retirement Policy, the membership of which would include the Chairman of the Board of Governors.

Governor Mills referred to the paragraph in the draft of letter to Chairman Priest which took the position that inasmuch as the subject of railroad retirement benefits was not closely related to the Board's responsibilities, it was not believed that any useful purpose would be accomplished by service of the Chairman of the Board as a member of the committee to be established pursuant to the bill. He raised the question whether, if the House Committee felt that the Chairman of the Board could make a contribution to the study, the reply should be so specific in suggesting that the bill be changed to exclude him from membership.

This point was discussed and it was the consensus that, for various reasons, including the nature of the study and the demands upon the time of the Chairman, it would be preferable if he were not called upon to

3/31/55

-13-

serve as a member of the Committee on Railroad Retirement Policy, but that the letter to Chairman Priest should be reworded so as to go no further than to raise the question.

Accordingly, unanimous approval was given to a letter to the Honorable Rowland R. Hughes, Director, Bureau of the Budget, reading as follows:

Enclosed is a draft of a proposed letter to the Chairman of the House Committee on Interstate and Foreign Commerce commenting on H.R. 4787, a bill to create a committee on railroad retirement policy.

Before transmitting the letter, the Board will appreciate advice as to the relationship of the proposed legislation to the program of the President.

Messrs. Sherman, Kenyon, and Solomon then withdrew from the meeting and Messrs. Bethea, Director, Division of Administrative Services, and Johnson, Controller, and Director, Division of Personnel Administration, entered the room.

Consideration was given to a memorandum from Mr. Bethea dated March 22, 1955, recommending the appointment of Marjorie B. Beattie as Associate Manager, Cafeteria, in that Division, effective June 1, 1955, with basic salary at the rate of \$5,560 per annum. The memorandum recommended that the appointment be made with the understanding that Mrs. Beattie's title would be changed to Manager, Cafeteria, effective November 1, 1955, the day following the date of resignation of the present manager of the cafeteria.

It was noted that the present manager intended to take about two months' annual leave prior to the date of her resignation and the question

3/31/55

-14-

was raised as to whether Mrs. Beattie's title should not be changed at the time the present manager entered upon annual leave.

Following a discussion, Mrs. Beattie's appointment was approved with the understanding that her title would be changed to Manager, Cafeteria, as of the date on which the present manager enters upon annual leave prior to the effective date of her resignation.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 30, 1955, were approved unanimously.

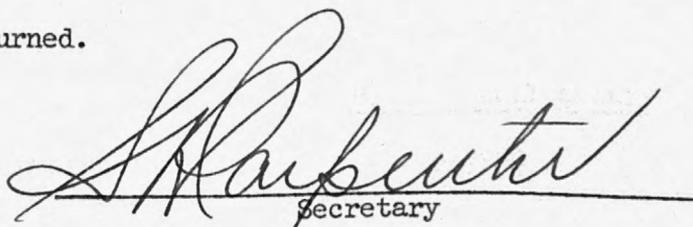
The members of the staff then withdrew and the Board went into executive session.

Following the executive session, the Chairman informed the Secretary that in view of the circumstances mentioned in a memorandum dated March 29, 1955, from Mr. Marget, Director, Division of International Finance, the Board approved his visiting the Bank deutscher Länder in Frankfurt, Germany, for one or two days during the course of his forthcoming trip to Europe, this action being taken with the understanding that no travel expense to the Board would be involved, since Mr. Marget would arrange to stop in Frankfurt on his way to or from Basle, Switzerland, but that, depending on his travel connections and the time spent at the Bank deutscher Länder, he would be granted, in addition to the week's leave on official business previously granted to him to attend the annual meeting of the Bank for International Settlements and to visit the Bank of England, additional leave on official business to cover the visit in Frankfurt, this being estimated at three or four days.

3/31/55

The Secretary also was advised by Governor Szymczak that during the executive session the Board authorized Mr. Thomas, Economic Adviser to the Board, to proceed to Oslo, Stockholm, and Copenhagen for the purpose of visiting the Bank of Norway, the Bank of Sweden, and the National Bank of Denmark, with the understanding that Mr. Thomas would leave Washington, D. C., on this assignment during the early part of July and would return on or about September 1, 1955, that a portion of the intervening period would be used for personal business for which Mr. Thomas would take from 10 to 15 days' annual leave, and that, while absent from Washington on official business, Mr. Thomas' actual necessary transportation expenses and per diem in lieu of subsistence would be paid in accordance with the Board's travel regulations, as supplemented by the standardized Government travel regulations.

The meeting then adjourned.


 Secretary