Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 5, 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. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Dembitz, Assistant Director, Division of International Finance

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:

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

> In accordance with the request contained in your letter of March 23, 1955, the Board approves the designation of Jack N. Young as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the designation is made effective.

Approved unanimously.

Letter to The First National City Bank of New York, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of section 25 of the Federal Reserve Act, to establish a second branch in Panama City, Republic of Panama, to be located in a building to be erected by Cia. Ford at the corner of Avenida Justo Arosemena and Calle 35, and to operate and maintain such branch subject to the provisions of such section; upon condition that, unless the branch is actually established and opened for business on or before April 1, 1956, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

It is understood, of course, that no change will be made in the location of such branch without the prior approval of the Board of Governors.

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

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

As recommended in your letter of March 25, 1955, the Board of Governors extends to August 2, 1955, the time within which Seattle Trust and Savings Bank, Seattle, Washington, may establish a branch at South 154th Street and Pacific Highway, King County, Washington. Please notify the bank of the Board's action.

Approved unanimously.

There had been sent to the members of the Board prior to this meeting copies of a memorandum from Mr. Hexter, dated March 31, 1955, concerning the proposal of The Chase Manhattan Bank, New York, New York, to organize under the Edge Act and the Board's Regulation K, Banking Corporations Authorized to Do Foreign Banking Business Under the Terms of Section 25(a) of the Federal Reserve Act, a corporation to be known as

"American Overseas Finance Corporation". Attached to the memorandum was a letter dated March 2, 1955, from Mr. John J. McCloy, Chairman of the Board of Directors of The Chase National Bank of the City of New York, (since merged into The Chase Manhattan Bank), outlining the proposed capital structure of American Overseas Finance Corporation, the contemplated mode of operation, and other matters. Mr. McCloy's letter requested that the Board approve the articles of association and organization certificate of the corporation in the form transmitted, and that it issue to the corporation a preliminary permit to begin business pursuant to Section 25(a) of the Federal Reserve Act and Section V of Regulation K. The consent of the Board was also requested for the purchase and holding by The Chase Manhattan Bank of 200,000 shares of common stock of the corporation on the terms set forth in the letter, and for allowing up to 75 per cent of each subscription made from time to time in respect of preferred stock of the corporation to be paid in upon call from the board of directors. In a letter dated March 25, 1955, a copy of which was also attached to Mr. Hexter's memorandum, the Federal Reserve Bank of New York recommended that the Board give the necessary approval and consent and issue a preliminary permit to begin business, subject to certain specified amendments to the articles of association. Mr. Hexter's memorandum submitted a proposed reply to The Chase Manhattan Bank which would state that the Board was prepared to act favorably with respect to the proposed organization and to issue a preliminary permit to begin business, provided several matters

referred to were taken care of and the articles of association and organization certificate were amended to the extent specified. The matters dealt with in the proposed reply were technical in nature and related principally to the plan of American Overseas Finance Corporation to issue, redeem, and reissue preferred stock, and to sell such stock at a subscription price of which only part would be paid in, the balance to be paid in upon call from the board of directors.

Following an explanatory statement by Mr. Hexter, there was a general discussion of the proposal, principally the preferred stock plan. During the discussion, Governor Vardaman inquired how the Board could be assured that a subsequent request on its part that the remainder of the preferred stock subscription price be paid in would be complied with, and whether approval of the proposal would not mean that the Board would be faced with a "policing" job for many years.

Comments by members of the staff indicated that a great deal of consideration had been given to the preferred stock phase of the proposal, both in staff discussions, including discussions with the Federal Reserve Bank of New York, and in conferences and correspondence with representatives of The Chase Manhattan Bank, that the policing problem referred to by Governor Vardaman might be of indefinite duration because of the contemplated issuance, redemption, and reissuance of preferred stock, but that the latest proposal, as it would be modified by the requirements embodied in the suggested reply to Mr. McCloy, gave as many assurances as possible

that the Board would be in control of the matter. Mr. Vest said that the staff, while not entirely satisfied with all aspects of the preferred stock plan, could find no substantial reason for an adverse recommendation to the Board, particularly since American Overseas Finance Corporation would have common capital several times greater than the minimum required by law and in addition would have $3-3/4 million of paid-in preferred stock, with a supplemental liability against the subscribers for the remainder of the subscription price. Consequently, he said, the Board was hardly in a position to say that the capital was inadequate or that there was a need for more capital at this time, and it was difficult to see how the Board would be justified in requiring that the preferred stock be fully paid in.

Governor Szymczak agreed with Governor Vardaman that the venture had involvements of a nature not heretofore presented by an Edge Act corporation but pointed out that the Board was aware that this would be the case when the proposal was first made. He felt that the draft of letter to The Chase Manhattan Bank covered in as satisfactory a way as possible the issues which raised some question.

Governor Balderston referred to requests in Mr. McCloy's letter of March 2, 1955, for two amendments to Section XI(c)(4) of Regulation K, and he inquired whether the sending of the suggested letter to The Chase Manhattan Bank, subsequent approval of the articles of association and the organization certificate of American Overseas Finance Corporation, and

issuance of a preliminary permit to begin business, would constitute in effect a commitment on the part of the Board to make the requested amendments.

Mr. Solomon responded that the intention was to reserve the point, since American Overseas Finance Corporation was very anxious to obtain a charter and its representatives had said that they would rather defer any questions of amendments to Regulation K, if necessary, than to experience additional delay. He then suggested a minor change in language of the proposed reply to make the situation more clear and there was agreement that the change should be made.

Mr. Vest said that several other minor changes in the draft were deemed desirable, that they would make no change in the substance of the letter, and that they would be made if the Board had no objection.

Chairman Martin inquired whether the letter had been discussed in substance with representatives of The Chase Manhattan Bank and when Mr. Vest replied in the negative, Chairman Martin asked whether it would be well to request the New York Reserve Bank to review in a general way the points covered therein with counsel for The Chase Manhattan Bank. Mr. Vest replied that the Chase people were anxious to hear from the Board and he proposed, as an alternative to Chairman Martin's suggestion, that if the letter to Mr. McCloy were approved and sent to the New York Reserve Bank for transmittal, the Reserve Bank be requested to invite representatives of The Chase Manhattan Bank to discuss any aspects of the matter

that might require clarification. Chairman Martin stated that he would have no objection in handling the matter in that way.

Thereupon, unanimous approval was given to a letter for the signature of Chairman Martin to Mr. John J. McCloy, Chairman of the Board of Directors, The Chase Manhattan Bank, New York, New York, in the following form for transmittal through the Federal Reserve Bank of New York:

This is with reference to your letter of March 2 and enclosed documents, relating to the proposal to organize, under the Edge Act (section 25(a) of the Federal Reserve Act) and the Board's Regulation K, a corporation to be known as "American Overseas Finance Corporation".

The Board of Governors is prepared to act favorably with respect to the proposed organization and to issue a preliminary permit to begin business, when the several matters referred to hereinafter are taken care of and the Organization Certificate and Articles of Association have been reexecuted with the changes indicated herein.

On page 1 of your letter, in connection with stock subscriptions, it is stated that it may be "necessary to provide in the final permit for a lesser amount of authorized capital stock...." Needless to say, the Articles and Organization Certificate would have to be amended to reflect any change in the amount of capital stock to be issued.

The last paragraph on page 3 of the letter refers to the prohibition of section XI(c)(1) of Regulation K against engaging in the business of receiving deposits, and raises a question as to the effect of this provision on AOFC's contemplated practice of owing money to exporters for the short periods necessary to process payments received from importers. There will be no objection to this practice, for brief periods, assuming that the processing of such payments is carried out in an expeditious manner, the obligations to exporters being regarded and treated as in the nature of accounts payable and the balances not being subject in any way to check, draft, or the like.

The first paragraph on page 4 of the letter relates to the provision of section XI(c)(4)(i) of Regulation K excluding from the assets of the corporation for the purposes of that

subparagraph, evidences of indebtedness "that are in default as to either principal or interest". The Board is now considering a revision of Regulation K, and in connection with that revision the Board will determine what amendment, if any, should be made with respect to the quoted provision. In the event that, in the meantime, an actual problem should arise in connection with a proposed issuance of obligations of AOFC, the Board will, upon request, expedite its consideration of this particular matter.

In the discussion of this subject, your letter mentions the provision of paragraph 2.9 of Article Seventh of the Articles of Association (relating to redemption of preferred stock) with respect to evidences of indebtedness "of which any installment of principal thereof or interest thereon shall remain unpaid 6 months after the maturity thereof". The Board does not object to the inclusion of this provision in the Articles. However, you will understand, of course, that the absence of objection to this provision does not indicate that the Board necessarily will take a favorable position regarding amendment of section XI(c)(4)(i) of Regulation K along the same lines.

The second paragraph on page 4 of the letter suggests that the Board of Governors amend section XI(c)(4)(iv) of Regulation K to provide that redemption of preferred stock "in accordance with law and the Articles of Association of the Corporation" shall be exempt from the restrictions of that subparagraph upon distributions on stock of an Edge Act corporation. This proposal will be given consideration by the Board in connection with the pending general revision of Regulation K, and the Board will welcome further comment at the appropriate time.

In the paragraph beginning on page 4 and continuing on page 5, the letter states that it is assumed that no problem is presented with respect to the statutory provision that an Edge Act corporation shall not "carry on any part of its business in the United States except such as, in the judgment of the Board of Governors ..., shall be incidental to its international or foreign business". To the extent that the proposed operations of AOFC are outlined in "II" of the letter, they do not appear to be contrary to the quoted statutory provision. However, since it is not possible to know the details of future operations, the Board is not in a position to give any general prior "clearance" on this matter.

In this connection, the Board feels that it would be preferable for Paragraph Second of the Organization Certificate

and Article Third of the Articles of Association to read as follows: "The operations of this Corporation shall be carried on in such place or places as the board of directors of this Corporation may from time to time determine, subject to the approval of the Board of Governors of the Federal Reserve System". It is noted that the home office of the Corporation is to be at 30 Pine Street, New York, New York.

In the last paragraph of the letter there is a request for the "Consent of the Board of Governors, pursuant to the Edge Act,... for the purchase and holding by the Chase National Bank of 200,000 shares of Common Stock of the Corporation". Since Paragraph 12 of the Edge Act authorizes a national bank to invest in the stock of Edge Act corporations within prescribed limits, and in view of the provisions of section 9 of the Federal Reserve Act and section 5136 of the Revised Statutes, the consent of the Board of Governors will not be required with respect to the proposed stock purchase by The Chase Manhattan Bank.

The last paragraph of your letter also requests the consent of the Board of Governors to the arrangement whereby up to 75% of each subscription with respect to preferred stock may be unpaid initially, subject to call from the board of directors. The Board of Governors is prepared to give its consent to this arrangement, subject to such conditions as the Board may deem appropriate, including the condition that the board of directors of the Corporation shall call for payment of such unpaid subscriptions (with respect to any outstanding preferred stock, including stock that has been redeemed and reissued) if and when required to do so by the Board of Governors.

Paragraphs 2.1(1) and 2.3(1) of Article Seventh of the proposed Articles of Association provide that the number of shares in a series of Preferred Stock "may thereafter be increased or decreased by resolution of the Board of Directors". It should be stated explicitly that any such increase or decrease shall be subject to the approval of the Board of Governors. This could be effected by adding, in each case, the words "with the approval of the Board of Governors of the Federal Reserve System"; or in the alternative there could be incorporated by reference the provisions (such as paragraphs 2.9 and 4 of Article Seventh) requiring such approval.

Paragraphs 2.3 through 2.5 of Article Seventh contain provisions relating to dividends on preferred stock. It is

not explicitly stated that dividends on the initial series of preferred stock shall be cumulative (after 1957) at a rate of 4-1/2% per annum provided there are available net earnings sufficient to cover dividends at that rate; in other words, that dividends on the initial series of preferred stock shall accumulate, with respect to any year, at a rate of less than 4-1/2% only in the event that net earnings of that year available for the payment of dividends amount to less than 4-1/2%. The Board will appreciate receiving confirmation of its understanding that the Articles are to be interpreted as requiring accumulation up to the maximum rate specified for the particular series, with respect to each year in which available net earnings are sufficient for such payment.

Paragraph 2.4 of Article Seventh provides that only "holders of fully paid shares of Preferred Stock shall be entitled to receive dividends". In the opinion of the Board, dividends should be payable with respect to all outstanding shares of preferred stock, in proportion to the amount that has been paid in on such shares. Accordingly, the words "fully paid" should be deleted from the first sentence and other places in paragraph 2.4, and the definition of "fully paid shares" presumably will become unnecessary. This change will require that paragraph 2.3(2) also be amended by deleting the words "par value thereof" and inserting in lieu thereof "amount paid in thereon" or similar language.

Paragraph 2.6 of Article Seventh excludes preferred stockholders from the exercise of voting rights "Except as hereinafter provided in this paragraph 2.6, in paragraph 2.11, in paragraph 4 and in Article Tenth". Paragraphs 2.6 and 2.11 expressly confer voting rights on preferred stockholders, but paragraph 4 and Article Tenth refer simply to "stockholders". Although it must have been intended that the term "stockholders" in paragraph 4 and in Article Tenth should include preferred as well as common stockholders, it is noted that paragraph 2.6 provides broadly that

> "Each reference in these Articles to any vote or other action of 'stockholders' of this Corporation shall refer only to the holders of Common Stock".

In order to avoid any possible misunderstanding, therefore, the words "common and preferred" should be inserted before the word "stockholders" at each of the four places where that

word appears in paragraph 4 and Article Tenth.

Paragraph 2.10 of Article Seventh provides that preferred stock redeemed out of surplus may "be reissued for an amount of consideration not less than the par value thereof." It is assumed that such shares ordinarily will be reissued at $100 per share (the par value) and that the initial cash payment on each reissued share will be the same amount as theretofore has been paid in on other shares of the same series. The Board of Governors may, of course, require that redeemed shares be reissued upon these or other prescribed terms, as a condition to its requisite approval of the redemption of preferred stock.

Paragraph 2.10 provides that shares of preferred stock which are redeemed out of the surplus of the corporation shall "have the status of authorized and unissued shares of Preferred Stock". The Board feels that it would be preferable to provide that such redeemed shares are to "have the status of Treasury stock" or, in the alternative, "issued but not outstanding shares." Likewise, the first sentence of paragraph 1 of Article Seventh should provide that "The total number of shares of capital stock of this corporation shall be 550,000."

Article Eleventh provides that the Articles of Association may be amended "by holders of a majority in number of the shares of Common Stock ..." However, paragraph 2.11 of Article Seventh contains limitations upon the power of common stockholders to amend the Articles, and in order to avoid any possible ambiguity the parenthetical phrase "(except as otherwise provided in paragraph 2.11 of Article Seventh)" should be inserted after the word "Corporation" in the first sentence of Article Eleventh.

It is presently contemplated that the revised Regulation K, now under consideration, will include a provision that the Articles of Association of Edge Act corporations shall not be amended except with the approval of the Board. In accordance with this principle, there should be inserted, at the beginning of Article Eleventh, the words "With the approval of the Board of Governors of the Federal Reserve System".

It may be mentioned that, in connection with the proposed revision of Regulation K, the Board is considering an amendment of section XV of Regulation K which would limit extensions of credit by Edge Act corporations to any one customer to 10% (20% in the case of a corporation not receiving deposits) of the corporation's paid-in capital and

surplus, instead of 10% or 20% of subscribed capital and surplus, as provided in the regulation at the present time.

Enclosed with your letter was a "Proposed Budget" of AOFC's operations for the first year. It is understood, of course, that the Board neither approves nor disapproves the proposed budget and does not express any view as to the accuracy or appropriateness of any of the items therein.

Messrs. Marget, Hexter, and Dembitz then withdrew from the meeting and Messrs. Bethea, Director, and Kelleher, Assistant Director, Division of Administrative Services, entered the room.

There had been circulated to the members of the Board a memorandum from Mr. Kelleher dated March 29, 1955, relating to the request of the Columbia Lighthouse for the Blind, a non-profit organization, to have a one-day exhibit and sale of blind-made products in the Federal Reserve Building. The memorandum stated that General Services Administration had allowed the organization to have exhibits in practically all Government buildings and that, in view of the worth-while purpose to be served and the evident intent of Congress and the President, through appropriate legislation, to aid blind persons, the Board might wish to grant permission for a one-day exhibit in space at the entrance to the cafeteria on a mutually agreeable date in April, with the understanding that orders for the products would be taken at that time but that deliveries would be made at a later date.

When the memorandum was in circulation, Governor Vardaman indicated that he had a question with respect to it. He now stated that his question concerned the advisability of granting the requested permission from the standpoint of the precedent which would be established.

At the request of the Board, Mr. Bethea made a statement in which he said that although it was recognized that the request could be an opening wedge for further concessions, it seemed to him the advantages in granting permission in this instance outweighed the disadvantages. He said the Board could deal with future requests on their merits and that, in fact, the Board might actually be in a better position to turn down requests from similar organizations for a larger scale or for a permanent concession if it had granted a relatively minor request such as the one involved. He also said that in view of legislation enacted to assist the blind and the precedents established by General Services Administration and other Government organizations, it might be a source of embarrassment to the Board to turn down a request for a one-day exhibit, particularly since the items exhibited would not be in competition with the cafeteria and since there would be no inconvenience to the Board's organization.

Following a discussion, it was agreed unanimously that the permission requested by the Columbia Lighthouse for the Blind should be granted.

Messrs. Bethea and Kelleher then withdrew from the meeting.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to the Presidents of all Federal Reserve Banks concerning the practice of some banks of listing the names of members of advisory boards or the names of honorary directors along with the names of duly elected directors in advertising material under the same caption

without distinguishing between the members of the respective bodies. The draft would state that because of the differences in functions and status, it was the feeling of the Board that the names should not be listed under a single inclusive caption without clearly indicating the exact status of each person listed, since in the Board's view the public should be able to ascertain the individuals elected by the shareholders as directors and charged with responsibility as such. The draft also would suggest that if such lists were published by State member banks, the position of the Board be brought to the attention of the publishing bank with the request that the bank clearly identify elected directors, if publication of combined lists was considered desirable.

Mr. Sloan made a statement in which he brought out that the Board's attention had been drawn to the matter by the practices of a national bank and a State member bank in St. Louis, that the Comptroller of the Currency had requested the national bank to make a clear distinction in its advertising, that the Comptroller had sent a letter covering the point to the District Chief National Bank Examiners, and that the letter to the Federal Reserve Banks had been prepared in the light of a suggestion by Governor Robertson that such a procedure would establish the position of the Board and not localize the matter.

Mr. Vest said it was his understanding that honorary directors and members of advisory boards do not vote at directors' meetings and have only advisory functions. He expressed the opinion that there was no legal

question about making the suggestion stated in the proposed letter but said that on the other hand he did not know that the Board could enforce the request if it were ignored, unless on the grounds that the practice tended in the direction of an unsafe or unsound banking practice.

Governor Vardaman questioned whether it was desirable for the Board to issue a letter to the Presidents of all Federal Reserve Banks of the type known as an S-letter when it knew that it did not have the power to enforce the request, and there was some discussion of that point. No conclusions were reached concerning the proposed draft of letter, and it was agreed that a decision on whether to send it should be deferred until a meeting when Governor Robertson was present and could express his views. Governor Vardaman stated that if, after hearing Governor Robertson's views, the Board should decide to send the letter, he wished the record to show that he would not oppose such action.

Mr. Sloan then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum dated March 28, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that the Board authorize the selection of a panel of 15 to 17 university scholars to review a set of 10 papers prepared by the Board's staff which analyzed the effects of System credit and monetary policies from mid-1952 through 1954, as well as foreign monetary policies in the same period, and to prepare memoranda giving their judgment on the specific effects of such policies. The memorandum also recommended that

the Board pay each participating scholar an honorarium of $100. Attached to the memorandum were a tentative list of scholars proposed for the review panel and a draft of letter to the participants. Under the suggested program the members of the review panel would be given thirty days to submit their memoranda and it would then be contemplated that the authors of the best six to nine papers would be invited to come to Washington, probably in June of this year, for a two-day discussion with the Board and staff. The estimated cost to the Board of the review panel would be $1,500 to $1,700, and the cost of a two-day conference, including consultant fees at the rate of $50 per day and traveling expenses, with a $15 per diem for the participants, would range from $1,500 to about $2,500. Appropriate provision had been made in the 1955 budget for the Division of Research and Statistics.

At the request of the Board, Mr. Young discussed the proposal and, in commenting on the objectives of the program, stated that it would give some idea of academic thinking concerning System policies and would provide information as to how well the Board had been able to communicate its story to the academic and university fraternity.

Governor Vardaman inquired whether the suggested arrangement would provide sufficient freedom of discussion to the participants and whether it would not be better to have an evaluation of Federal Reserve methods in reaching decisions and the competency of staff work upon which the Board's judgments were made. He also expressed the opinion that it would be a

mistake to have a group of 15 or 17 persons review the staff papers and prepare memoranda with respect to them, and then invite only a portion of the review panel to come to Washington.

With respect to the first of Governor Vardaman's comments, Mr. Young said that in terms of development of economic thought through the 1930's and then through the war period, there was a general tendency on the part of economists to discount the role of monetary and credit policies. Since then there had been a growing regard for such policies in economic thinking, analysis, and discussion, with greater emphasis upon such things as the trend of interest rates and their relationship to the volume of savings and the volume of real investment. These developments, he said, led to the selection of the topics for the staff papers which the review panel would be asked to criticize. With regard to Governor Vardaman's second point, Mr. Young said that it would of course be possible for all of the panel members to come to Washington, but in the interest of a productive discussion it would seem inadvisable to have such a large group come at one time.

Governor Vardaman then stated that in his opinion the composition of the group should be broadened so that the Board might have the views of economists outside the universities, such as labor union, bank, and industrial economists. This, he felt, would give a broader perspective which would be valuable to the Board.

There ensued a general discussion of Governor Vardaman's suggestions and of other alternatives which might be followed in working out a program

of the nature suggested. During the course of the discussion, Chairman Martin pointed out that such a program had been contemplated for a long time, that it would be in the nature of an experiment, and that it would seem advisable to proceed with some initial program, having in mind that at a somewhat later date other groups could be brought in for discussions with the Board to the extent that that appeared to be desirable in the light of experience with the first phase of the program. The suggestion that all of the economists who had reviewed the staff papers be invited to come to Washington was favored, and it was agreed that arrangements should be made to invite all participants, with the understanding that this would necessitate having more than one meeting.

Chairman Martin then suggested that a program of the nature outlined in Mr. Young's memorandum be approved, that Governor Mills be asked to work with Mr. Young on the arrangements, and that Governor Mills be given power to act on behalf of the Board.

These suggestions were approved unanimously.

Mr. Cherry, Legislative Counsel, entered the room at this point.

There had been circulated to the members of the Board a memorandum from Mr. Vest, General Counsel, dated March 28, 1955, concerning a request from a representative of the Bureau of the Budget for informal advice as to whether the Board of Governors, as a policy matter, would desire or object to a reorganization plan under the Reorganization Act of 1949, as extended, as a method of abolishing the functions of the Federal Reserve Banks in

making business and industrial loans under section 13b of the Federal Reserve Act, and to provide for a return to the Treasury of the funds, amounting to about $27-1/2 million, which were paid to the Federal Reserve Banks by the Treasury in past years for the purposes of making such loans. The memorandum stated that the proposal was subject to the question whether any such method would be legally possible, that members of the Board's staff were not aware at this time of any plan which would accomplish the desired objectives and still be within the terms of the Reorganization Act, and that there was a question whether such a proposal might not constitute an undesirable precedent. After outlining the general nature of the Budget Bureau proposal, which would not undertake to act directly upon the Federal Reserve Banks but would directly affect only the Treasury and the Board of Governors, with an indirect and consequential effect upon the Federal Reserve Banks, the memorandum pointed out that the details of the proposal were not known to the Board's staff and that any comments made at this point might need modification if the details should become known.

It was the unanimous view of the members of the Board that as a matter of policy it would be inadvisable to use the Reorganization Act of 1949 to accomplish the desired objectives, even if a legally permissible plan were presented, and it was understood that the views of the Board would be transmitted to the Bureau of the Budget informally.

In accordance with the understanding at the meeting yesterday, there had been sent to the members of the Board prior to this meeting copies

of a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, commenting on certain draft provisions of the proposed "Housing Amendments of 1955" in the revised form in which they were sent to the Board under date of March 30, 1955, by the Housing and Home Finance Administrator.

There was a discussion based on the draft of letter to Mr. Jones and several suggestions were made for changes in the draft.

At the conclusion of the discussion, unanimous approval was given to a letter for the signature of Chairman Martin to Mr. Jones in the following form, with the understanding that a copy of the letter would be sent to each member of the Board for his files:

Following the discussion in your office on March 25, 1955, of provisions of the proposed "Housing Amendments of 1955", Mr. Albert M. Cole, Administrator of the Housing and Home Finance Agency, forwarded to the Board under date of March 30, 1955, revised drafts of certain of the provisions in question. He also indicated that sections 15 and 16 would be deleted from the draft.

The revision would retain provisions which would (1) authorize Federal savings and loan associations to invest in "investment securities" not including stocks, as defined by the Home Loan Bank Board, (2) authorize such associations to invest up to 5 per cent of withdrawable shares in unimproved real estate, and (3) make insured shares of savings and loan associations lawful investments for fiduciary and trust funds under the authority and control of the United States or any officers thereof, regardless of any existing limitation of law upon the investment of such funds.

In view of the Board's responsibilities in the field of money and credit as well as bank supervision, it naturally has an interest in any proposals for legislation which may affect the soundness or stability of other financial institutions or of the nation's economy. The modifications which have been made in the revision submitted move in the right direction, but for the reasons indicated in its letter of

March 17, 1955, the Board continues to feel that the three provisions mentioned above are inconsistent with the function of savings and loan associations as mutual thrift and home financing institutions. The proposal for investment in "investment securities" and the proposal for making insured shares lawful investments for trust funds, even if they are eventually to be submitted to Congress, should not be considered until the requirements for liquidity of savings and loan associations have been substantially increased and strengthened by law and regulation in the interest of sound financial practice.

The authorization to invest in unimproved real estate would, in the Board's opinion, be particularly unsound, since it would mix the function of investment with the inconsistent function of real estate promotion. It would thus provide for speculative investment of funds entrusted to thrift institutions. Such a conflict of interest undermines the soundness and objectivity of investment policies. It is noted that the authority is proposed because of the plight in which small builders are said to find themselves and in order to assist in the rehabilitation of substandard urban areas. Deserving as these objectives may be, they should be dealt with in some other way and, in any event, they do not justify such a drastic change in the character of Federal savings and loan associations. Likewise, the fact that associations in some States may already engage in this type of business is not adequate reason for encouraging Federal associations also to engage in such unsound practices.

Chairman Martin stated that because of conflict with a scheduled defense exercise, Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, had suggested to Mr. Riefler that the next meeting of the Conference be postponed from the week of June 13, 1955, to the following week. This would mean that the meeting of the Trustees of the Retirement System of the Federal Reserve Banks would be held on June 21 and a meeting of the Federal Open Market Committee on June 22.

It was agreed that President Young should be advised that the Board would have no objection to the proposed schedule.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 31, 1955, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 4, 1955, were approved and the actions taken therein were ratified by unanimous vote.

The meeting then adjourned.

Secretary's Note: On March 29, 1955, the Board voted to request the Chairman of the Federal Reserve Bank of Dallas to ascertain whether Messrs. Tyrus R. Timm and John C. Flanagan would accept appointment as directors of the Houston Branch, if such appointments were tendered, and to ascertain whether Mr. Alex R. Thomas would accept appointment as director of the San Antonio Branch, if the appointment were tendered; with the understanding that if they would accept, the appointments would be made. Advice having been received that the appointments would be accepted, the following telegrams were sent today:

To Mr. Tyrus R. Timm, Head of the Department of Agricultural Economics and Sociology, A and M College of Texas, College Station, Texas

Board of Governors of Federal Reserve System has appointed you director of Houston Branch of Federal Reserve Bank of Dallas for unexpired portion of term ending December 31, 1955. Your acceptance by collect telegram will be appreciated.

It is understood you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of your appointment, please advise Chairman Federal Reserve Bank of Dallas.

To Mr. John C. Flanagan, Vice President and General Manager, Texas Distribution Division, United Gas Corporation, Houston, Texas

Board of Governors of Federal Reserve System has appointed you director of Houston Branch of Federal Reserve

Bank of Dallas for unexpired portion of term ending December 31, 1957. Your acceptance by collect telegram will be appreciated.

It is understood you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of your appointment, please advise Chairman Federal Reserve Bank of Dallas.

To Mr. Alex R. Thomas, Vice President, Geo. C. Vaughan & Sons, San Antonio, Texas

Board of Governors of Federal Reserve System has appointed you director of San Antonio Branch of Federal Reserve Bank of Dallas for unexpired portion of term ending December 31, 1957. Your acceptance by collect telegram will be appreciated.

It is understood you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of your appointment, please advise Chairman Federal Reserve Bank of Dallas.

Merritt Sherman
Assistant Secretary