

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 14, 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. Shepardson

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 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. Horbett, Assistant Director, Division of Bank Operations  
 Mr. Koch, Assistant Director, Division of Research and Statistics  
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memoranda from appropriate individuals concerned recommending actions with respect to the Board's staff as follows:

Salary increases, effective April 24, 1955

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Jo Ann L. Murray, Clerk-Typist		\$2,750	\$2,950
Charles G. Trescott, Library Assistant		3,655	3,785

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Additional leave without pay

Frances M. Callahan, Assistant Manager, Cafeteria, Division of Administrative Services. To the extent required during the period from April 11 through May 31, 1955.

Acceptance of resignations

Reta C. America, Stenographer, Division of Examinations, effective April 7, 1955.

Dora Lee Wright, Operator (Key Punch), Division of Administrative Services, effective April 29, 1955.

Approved unanimously.

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

In accordance with the request contained in your letter of April 6, 1955, the Board approves the appointment of Lindell L. Sack as an examiner for the Federal Reserve Bank of Kansas City. Please advise as to the date upon which the appointment is made effective and as to salary rate.

Approved unanimously.

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

Reurlet April 6, 1955. Board approves appointment of Joe James Ward as an Assistant Examiner for the Federal Reserve Bank of Kansas City. Please advise as to the date upon which the appointment is made effective and as to salary rate.

Approved unanimously.

Letter to the Board of Directors, The New York 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 approves the establishment of a branch by

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The New York Trust Company, New York, New York, at 650 Madison Avenue, New York, New York, provided the branch is established within two years from the date of this letter.

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

Letter to the Board of Directors, Mechanics and Farmers' 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 approves the establishment of a branch by the Mechanics and Farmers' Bank of Albany, Albany, New York, at 1082-84 Madison Avenue, Albany, New York, provided the branch is established within twelve months from the date of this letter and that formal approval of the Banking Board of the New York State Banking Department is obtained prior to the establishment of such branch.

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

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

Reference is made to your letter of April 4, 1955, advising of the proposed removal by The Fifth Third Union Trust Company, Cincinnati, Ohio, of its branch at 3550 Montgomery Road to 3700 Montgomery Road, Cincinnati, Ohio, a distance of approximately 1,000 feet.

It appears that this change would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, therefore, the approval of the Board of Governors is unnecessary. Please advise the bank accordingly.

Approved unanimously.

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Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

Reference is made to your letter of March 30, 1955, submitting with a favorable recommendation the request of the Dupo State Savings Bank, Dupo, Illinois, for permission under section 24A of the Federal Reserve Act to invest approximately \$65,000, exclusive of the cost of equipment, furniture and fixtures, in the construction of new bank premises on the rear of its present banking lot.

The Board has given consideration to the asset condition, management, earnings, capital structure, and physical needs of the Dupo State Savings Bank and approves the investment of not to exceed \$65,000 in the proposed new bank premises. It is noted that you expect the bank to continue its practice of conserving most of its earnings and to institute a satisfactory program for depreciating fixed assets.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated March 9, 1955, enclosing photostatic copies of an application to organize a national bank at Billings, Montana, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by a representative of the Federal Reserve Bank of Minneapolis indicates generally satisfactory findings with respect to the factors usually considered in connection with such applications, except the adequacy of the capital structure. On the basis of the potential future deposits of the institution, our informant suggests that a minimum capital structure of at least \$300,000 be required instead of \$200,000 proposed by the applicant. The Board of Governors recommends approval of the application provided arrangements are made for a capital structure satisfactory to your office.



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The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Letter to Mr. Harold C. Patterson, Director, Division of Trading and Exchanges, Securities and Exchange Commission, Washington, D. C., reading as follows:

This refers to your letter of March 31, 1955, and its enclosures, concerning short sales of unregistered, nonexempted securities under Regulation T.

As indicated by the above correspondence, short sales of securities, whether registered or unregistered, may not be included in a special cash account because of the provisions of section 4(c)(1)(B) of the regulation.

With respect to general accounts, section 3(d)(3) of the regulation provides for the inclusion in the adjusted debit balance of "the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in the supplement to this regulation as the margin required for such short sales, . . ." The Supplement to the regulation, effective January 4, 1955, provides that "The amount to be included in the adjusted debit balance of a general account, pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 60 per cent of the current market value of each such security."

Since section 3(d)(3) refers to any "securities" and the Supplement refers to "each such security", these provisions permit short sales of unregistered securities in a general account, subject to the present 60 per cent margin requirement. In this connection, it may be noted also that a short sale is not made on the collateral of the security sold short, so that the prohibition of section 7 of the Securities Exchange Act of 1934 against credit on the collateral of securities other than registered or exempted securities is not applicable.

Approved unanimously.

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Governor Robertson said that in addition to the State bankers' associations whose officers had visited, or were scheduled to visit, Washington this year, the Michigan Bankers Association was now arranging for its officers to visit on April 25 and 26, the program to include a dinner on the first of the two days, to which members of the Board and its staff were invited. He suggested that the usual arrangements, including a luncheon and an informal discussion with members of the Board, be made in connection with an invitation to the officers of the Michigan Bankers Association to come to the Federal Reserve Building on Monday, April 25.

There was unanimous agreement that such arrangements should be made and Governor Robertson was requested to work out the necessary details.

There was presented a request from Mr. Bethea, Director, Division of Administrative Services, for authority to travel to Philadelphia, Pennsylvania, during the period April 26-28, 1955, to attend, as associate member, a meeting of the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations.

Approved unanimously.

At the meeting on March 23, 1955, consideration was given to the request of the Federal Reserve Bank of Chicago for the Board's consent to the retention of Mayer, Meyer, Austrian and Platt and Holt and Kearney as special tax counsel to represent the Bank in obtaining relief from an

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excessive valuation of its head office properties for the 1955-1958 quadrennial period. Under the contemplated arrangement, counsel would be retained on the basis of a contingent fee amounting to 50 per cent of the first year's savings in taxes. In discussing the matter, members of the Board questioned the advisability of employment of outside counsel by a Reserve Bank on a contingent fee basis, and the staff was requested to explore the matter prior to further consideration by the Board.

Accordingly, there had been circulated to the members of the Board a memorandum from Mr. Vest dated April 5, 1955, reporting telephone conversations which he had had with Mr. Hodge, General Counsel for the Chicago Reserve Bank, and with a partner in the firm of Mayer, Friedlich, Spiess, Tierney, Brown and Platt (formerly Mayer, Meyer, Austrian and Platt), who called from Mr. Hodge's office. According to the latter, all proceedings involving real estate tax reductions in the city of Chicago are handled on a contingent fee basis and, in his opinion, no reputable attorney would be willing to handle such a proceeding on any other basis. With regard to the general subject of contingent fees, Mr. Vest's memorandum made reference to Treasury Department regulations, the rules of practice of the Interior Department, and the canons of professional ethics of the American Bar Association, all of which indicated that employment of attorneys on such a basis was condoned in certain circumstances. Attached to Mr. Vest's memorandum

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was a letter dated March 31, 1955, from Mr. Barton, Assistant General Counsel for the Federal Reserve Bank of Chicago, outlining in some detail the pertinent Illinois tax statutes, the assessment and review procedures in Cook County, and reasons for the retention, on a contingent fee basis, of lawyers who specialize in property tax matters. The letter also stated that the Chicago Reserve Bank had for some time followed the practice of retaining tax counsel periodically because it believed it was to the Bank's advantage to retain such counsel rather than have the Bank's legal staff become versed in the specialized and highly technical field of assessment of large city property. It was noted that the firm whose employment was recommended has on its staff, among other specialists, a trained valuation engineer whose services reportedly would be essential in a property tax proceeding.

After discussing his investigation into aspects of the Chicago Bank's proposal, Mr. Vest said that in view of the circumstances, as explained to him, and in view of the fact that the Board had approved the retention of tax counsel by the Chicago Bank over a period of years, he would be inclined to suggest that no objection be interposed to the request.

Governor Balderston expressed the view that the assessment procedures and the contingent fee arrangement combined to offer possibilities for collusion between attorneys and between lawyers and the local authorities. He asked whether it would not be feasible for the Reserve Bank's



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General Counsel to go to the proper authorities and request, on behalf of the Bank, appropriate relief from the excessive valuation of its properties, and he went on to suggest that if such a procedure did not produce the desired results it might be advisable for the Reserve Bank to pay the financial penalty involved, since it did not seem compatible with the high standards of the Federal Reserve System for a Reserve Bank to participate in any way in practices of the kind described.

Other members of the Board expressed similar views and the question was raised as to what alternatives would be available if retention of tax counsel on a contingent basis were not approved. Mr. Vest responded that, as had been suggested, the Board might ask the Reserve Bank's General Counsel to handle the matter, although such a course might not prove to be feasible in view of the specialized training reportedly required, or the Board might ask the Chicago Bank to arrange, if possible, for the retention of outside counsel on a lump-sum basis.

Governor Robertson then suggested that before reaching a final decision, the Board might ask the Chicago Bank to inquire as to the position of the Illinois State Bar Association regarding the practice of employing attorneys on a contingent fee basis, and at the same time ask the Chicago Bank for its comments, including advice as to what alternative courses the Bank felt were available. While his tentative views were similar to those expressed by other members of the Board, he felt that the Chicago Bank should be given an opportunity to look into the matter

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further, after having been notified that the Board was inclined to reject the proposed arrangement.

Following further discussion, agreement was reached on a procedure such as outlined by Governor Robertson.

Secretary's Note: Pursuant to this action, the following letter was sent to Mr. Young, President of the Federal Reserve Bank of Chicago, on April 15, 1955:

This refers to your letter of March 10, 1955, and also Mr. Barton's letter of March 31, 1955, requesting the consent of the Board for the retention of Mayer, Meyer, Austrian & Platt and Holt and Kearney as special tax counsel to represent your Bank in obtaining a reduction in the excessive valuation of its properties for the 1955-1958 quadrennial period.

The Board questions the desirability of a Federal Reserve Bank's entering into arrangements with attorneys on a contingent fee basis and, accordingly, is not disposed to give the consent requested in your letter. Before the Board takes a definitive position in the matter, however, it will be glad to receive any comments that you may care to make on the subject, together with information as to what position, if any, the Bar Association of the State of Illinois may have taken with respect to the question of contingent fees of attorneys. In addition, the Board would like to be advised as to what alternative courses would be available if the contingent fee basis is not approved and, in this connection, would like to have your comments on the relative merits of having the matter handled by your counsel or by outside counsel on the basis of a flat fee fixed in advance.

When the officers and executive committee of the National Association of Supervisors of State Banks visited the Board's offices on April 6, 1955, and met informally with Governors Balderston and Szymczak, they raised the question of omitting the schedule of loans and discounts

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on two of the four calls each year for member bank condition reports, the reasons given for this suggestion being that it was difficult for banks, especially smaller institutions, to prepare the schedule, that the figures reported by many banks tended to be inaccurate, and that it was more likely that the figures would be reliable if they were requested only twice each year. It was understood that the matter would be brought to the attention of the full Board.

During a discussion of the problem, Mr. Young described the uses to which the data available from the loan schedule are put by the Board's staff. He said that it would be desirable, in fact, for analytical purposes if such information could be obtained more frequently, but that in any event the data from the call reports were important as a means of checking estimates made between call dates from samples or otherwise. He stated that if the breakdown of loans from the call reports was not available four times each year, it would be possible to miss altogether important trends in the volume of various types of credits.

Mr. Horbett said that while complaints by banks regarding the call reports naturally would come to the Federal Reserve Banks rather than to the Board in most instances, so far as he knew such complaints had not been numerous, although if the question were put to the member banks they would no doubt express a preference for less frequent reporting. He ascribed the main reporting difficulties primarily to the

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failure of smaller banks to keep proper control records, and he said that if adequate records were maintained it would appear to be nearly as easy to prepare the call reports four times a year as twice a year.

Mr. Horbett suggested that as part of a long-term program, consideration might be given to eliminating the loan schedule and the breakdown of Government security holdings from the call reports completely, provided other arrangements were made to collect such data regularly through the Federal Reserve Banks, sometimes on a sample basis and sometimes on an over-all basis. The Treasury, he said, now collects, and has collected for a number of years, detailed data on Government security holdings monthly from about 98 per cent of the commercial banks, and if this data were assembled by the Reserve Banks on behalf of the Treasury and the Federal Reserve System, the compilations could perhaps be produced more quickly than at present.

It was the view of members of the Board that the suggestion of the State bank supervisors, if adopted, probably would not result in any substantial improvement in reporting accuracy, that it would not meet the problems encountered by banks which find difficulty in making the reports, but rather that the solution was in the direction of encouraging and assisting the member banks to install and maintain accounting systems adequate for control purposes. It was mentioned, as an example, that the Federal Reserve Bank of New York was pursuing, reportedly with considerable success, a program of technical assistance



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to member banks in its district looking toward the improvement of book-keeping techniques.

Governor Vardaman then suggested that if the Board should decide to inform the State bank supervisors that it did not feel justified at this time in reducing the frequency of requests for the loan schedule, the Board also might state that the problem was being referred to the Conference of Presidents of the Federal Reserve Banks, with the suggestion that the Reserve Banks explore the possibility of instituting programs, or augmenting existing programs, designed to improve accounting practices at their member banks, so that the burden of preparing the reports required by the bank supervisory authorities would be lessened.

The procedure suggested by Governor Vardaman was approved unanimously, and it was understood that appropriate letters would be drafted.

Chairman Martin reported receipt of advice that the executive committee of the Board of Directors of the Federal Reserve Bank of Boston at its meeting this morning established, subject to the approval of the Board of Governors, rates of 1-3/4 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, 2-1/4 per cent on advances under section 10(b), and 3 per cent on advances under the last paragraph of section 13, effective April 15, 1955.

Thereupon, unanimous approval was given to a telegram to Mr. Neal, First Vice President, Federal Reserve Bank

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of Boston, in the following form, with the understanding that the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of Federal Reserve Bank branches would be notified by telegram, that a press statement in the usual form would be issued, and that a notice would be sent to the Federal Register:

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 2-1/4 per cent on advances to member banks under Section 10(b), and 3 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to press at 4:25 p.m. today for immediate release.

It was also agreed unanimously that if advice should be received during the day that other Federal Reserve Banks had established a rate of 1-3/4 per cent on discounts and advances under sections 13 and 13a and had established appropriate rates on advances under other sections of the Federal Reserve Act, those Banks should be informed of the Board's approval.

Secretary's Note: Pursuant to this action, the following telegrams were sent during the day:

To Mr. Treiber, First Vice President, Federal Reserve Bank of New York

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a and 2-1/4 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate handed to press at 4:25 p.m. today for immediate release.

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To Mr. Fulton, President, Federal Reserve Bank of Cleveland

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a and 2-1/4 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to press at 4:25 p.m. today for immediate release.

To Mr. Leach, President, Federal Reserve Bank of Richmond

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a and 2-1/4 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to press at 4:25 p.m. today for immediate release.

To Mr. Johns, President, Federal Reserve Bank of St. Louis

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a and 2-1/4 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to press at 4:25 p.m. E.S.T. today for immediate release.

To Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a and 2-1/4 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate given to press today for immediate release.

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To Mr. Irons, President, Federal Reserve Bank of Dallas

Reurtel today. Board approves effective April 15, 1955 rates of 1-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 2-1/4 per cent on advances to member banks under Section 10(b), and 3-1/4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to press at 4:25 p.m. E.S.T. today for immediate release.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 13, 1955, were approved unanimously.

At this point all of the members of the staff with the exception of Mr. Carpenter and Mr. Sherman withdrew from the meeting.

Chairman Martin referred to the memorandum from Governors Balderston and Szymczak dated April 6, 1955, regarding additional Federal Reserve Bank branches which had been the subject of a preliminary discussion at the meeting on April 12, 1955, at which Governor Mills was unable to be present because he was attending a meeting of the Investment Committee of the Retirement System of the Federal Reserve Banks in Chicago.

Governor Mills stated that the immediate problem was the question whether a branch of the Federal Reserve Bank of Chicago should be established in Des Moines, Iowa. His view, he said, was that if there were a branch in Des Moines, that city and the surrounding area would very shortly find that it was being served by a useful additional facility.



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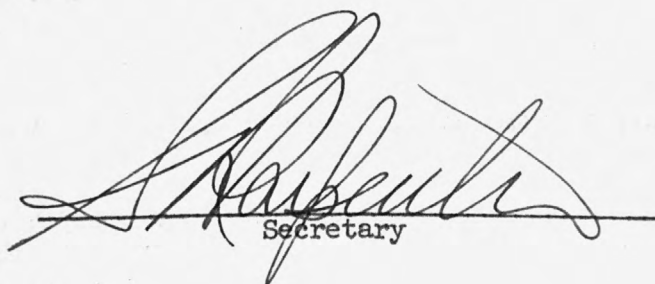
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It would be consistent with a more prompt check collection service and with the report of the special committee which had studied the check clearing and collection systems during recent years. However, where there was no vocal demand and no evidence of a ground swell of demand from the Des Moines area that such a facility be provided, he (Governor Mills) would not change the existing set-up but would remain open minded and ready to review the question periodically.

None of the other members of the Board expressed a different view.

The members of the staff then withdrew. The Secretary subsequently was informed that there was some further discussion of the matter of Federal Reserve Bank branches in executive session, but that no conclusions were reached.

The meeting then adjourned.



Secretary