Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 21, 1955. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
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
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

There had been sent to the members of the Board copies of a memorandum from Messrs. Vest and Marget, dated April 18, 1955, regarding an informal inquiry by a staff member of the Bureau of the Budget as to whether the Board had any comments on a proposed bill which would authorize United States membership in the International Finance Corporation, a new intergovernmental organization to be organized as an affiliate of the International Bank for Reconstruction and Development for the purpose of

participating with private capital in the financing of foreign development enterprises. One provision of the proposed bill, comparable to a provision in the Bretton Woods Agreement Act, would state that upon request of the International Finance Corporation any Federal Reserve Bank "shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve Banks". After outlining the organization of the Corporation and the manner in which it would function, the memorandum recommended that the staff be authorized to advise the Bureau of the Budget that the Board would have no objection to the bill.

Chairman Martin stated that the proposed International Finance Corporation had been the subject of a great deal of discussion within the National Advisory Council on International Monetary and Financial Problems, of which he is a member ex officio, that he had participated in those discussions and expressed his views, and that if called upon to testify regarding the bill, he would have to do so in his capacity as a member of the Council. He then stated reasons why, in his opinion, members of the Board having assignments similar to his as a member of the Council could not function effectively in those assignments if it were necessary to clear with the full Board all items coming up for discussion. It was his feeling, therefore, that although the Board should be kept informed concerning National Advisory Council matters having a close relationship to the work

of the Board, it would, as a matter of policy, be a mistake for the Board to take a position on items that had been acted upon by the Council. If that practice were followed, he pointed out, there would be the risk that the Board on some occasion would take a position different from that expressed in the Council by the Chairman of the Board or his alternate.

There was a brief discussion based on Chairman Martin's comments and it was understood that the subject would be considered further in executive session.

Messrs. Marget, Dembitz, and Tamagna then withdrew from the meeting.

Chairman Martin reported receipt of advice that at its meeting yesterday the executive committee of the Board of Directors of the Federal Reserve Bank of San Francisco established 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 to member banks under section 10(b); and 1-3/4 per cent on discounts for Federal Intermediate Credit Banks, effective the first business day following approval by the Board of Governors, and to establish without change other rates of discount and purchase in the Bank's existing schedule.

Thereupon, unanimous approval was given to a telegram in the following form to Mr. Millard, Vice President and Secretary of the Board of the Federal Reserve Bank of San Francisco, 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 would be issued in the usual form, and that a notice would be sent to the Federal Register:

Reurtel April 20. Board approves effective April 22, 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 1-3/4 per cent on discounts for Federal Intermediate Credit banks. 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 4:00 p.m. EST today for immediate release.

It was also agreed unanimously that if advice should be received during the day that other Federal Reserve Banks, which had not done so previously, had acted to establish a rate of 1-3/4 per cent on discounts for and advances to member banks under sections 13 and 13a, and establish other appropriate rates in their schedules of discount and purchase, those Banks should be advised that the Board of Governors approved such rates.

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

To Mr. McCreedy, Vice President and Secretary, Federal Reserve Bank of Philadelphia

Reurtel today. Board approves effective April 22, 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. It is noted that rate on discounts for Federal Intermediate Credit banks has been eliminated. 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 4:00 p.m. today for immediate release.

To Mr. Dawes, Vice President and Secretary, Federal Reserve Bank of Chicago

Reurtel today. Board approves effective April 22, 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 4:00 p.m. EST today for immediate release.

There were distributed to the members of the Board copies of a draft of a possible letter to the Chairmen and Presidents of all Federal Reserve Banks, prepared for the signature of Chairman Martin, discussing developments in connection with the request of the Chairman of the House Committee on Government Operations that the Comptroller General make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and branches. Enclosures would include Chairman Dawson's letter to the Comptroller General dated April 13, 1955; the Comptroller General's letter to the Board dated April 18; the Board's reply dated April 20; a summary of the discussion which the Board had with the Comptroller General on April 18; and, as a matter of information on a related matter, a resolution introduced by Congressman Patman on April 18 and referred to the House Committee on Rules which, among other things, would authorize a full investigation of the Federal Open Market Committee.

Following a statement by Governor Szymczak that the purpose of the letter would be to give the Chairmen and Presidents essentially the

same information as the Board had in its possession to date, there was some discussion of the draft and of possible alternative procedures. Alternatives suggested were that the Chairmen and Presidents might be invited to come to Washington in the near future for a meeting with the Board; that the Chairman of the Chairmen's Conference and the Chairman of the Presidents' Conference be asked to name committees from their respective groups to consult with the Board; and that for the time being the Board go no further than to notify the Chairmen of the Chairmen's Conference and the Presidents' Conference.

At this point Governor Vardaman joined the meeting. At this point, also, Messrs. Riefler, Thomas, and Young withdrew.

For the benefit of Governor Vardaman, Chairman Martin reviewed the request made by Chairman Dawson and the actions taken by the Board since it learned of the request.

Governor Vardaman stated that in his opinion the actions taken by the Board so far had been satisfactory. In further comments, he emphasized the importance of knowing whether the request was one of the Chairman of the Committee on Government Operations or one on which the Committee had acted. If it was not an order of the Committee, he felt that the books of the Federal Reserve System should not be opened to the Comptroller General, and if an order of the Committee was produced, he favored requesting a hearing before the Committee. He also favored contacting Chairman Dawson at an early date, either by letter or by arranging a meeting between

Mr. Dawson and Chairman Martin, and he suggested the advisability of informing the Chairmen of the Senate Committee on Government Operations and of the Senate and House Banking and Currency Committees concerning the audit request.

While Governor Vardaman did not favor inviting all of the Reserve Bank Chairmen and Presidents to meet with the Board at this stage, he thought there should be some contact with representatives of the Chairmen and the Presidents and also with the President and Vice President of the Federal Advisory Council. With respect to the Council, Chairman Martin commented that the Council was to meet during the week of May 15 and that it had on its agenda for discussion the bill introduced by Congressman Patman (H. R. 2643) which would authorize the Comptroller General to make an audit of the Federal Reserve System.

Governor Szymczak then suggested that before any letter was sent to the Federal Reserve Bank Chairmen and Presidents it might be desirable for Chairman Martin to talk by telephone with Mr. Virden, Chairman of the Chairmen's Conference, and Mr. Young, Chairman of the Presidents' Conference, for the purpose of informing them generally regarding developments to this point and stating that the Board had under consideration a letter of advice to the Federal Reserve Bank directors on the matter.

At this point Governor Mills withdrew from the meeting to keep another appointment.

Governor Robertson discussed the sending of a letter to Chairman

Dawson and enumerated the points which he felt might be covered in such a letter.

Following further discussion, it was understood that Chairman Martin would call Chairman Virden and President Young on the telephone and that the question of communicating with Chairman Dawson would be considered further at the meeting of the Board tomorrow.

Consideration was given to a memorandum from Mr. Hexter dated April 14, 1955, which had been circulated to the members of the Board, having further reference to the organization of the American Overseas Finance Corporation under section 25(a) of the Federal Reserve Act. In a letter dated April 5, 1955, to The Chase Manhattan Bank, New York, New York, the Board stated that it was prepared to act favorably with respect to the proposed organization and to issue a preliminary permit to begin business provided certain revisions were made in the articles of association and the organization certificate theretofore submitted. Subsequently, a letter was received from The Chase Manhattan Bank, dated April 11, 1955, enclosing an executed copy of the articles of association which incorporated all of the suggestions made in the Board's letter except the suggestion, also made with respect to the organization certificate, that the language, "The operations of this Corporation shall be carried on in New York, New York", be changed to "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". For reasons stated in the memorandum, including the favorable recommendation of the Federal Reserve Bank of New York, it was recommended that objection not be interposed to the single failure to comply with the Board's suggestions and that a letter reading as follows be sent to Mr. John J. McCloy, Chairman, Board of Directors, The Chase Manhattan Bank, New York, New York:

> The Board of Governors has approved the Articles of Association and Organization Certificate of American Overseas Finance Corporation, and there is enclosed herewith a preliminary permit authorizing that Corporation to exercise such of the powers conferred by section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. As you are aware, the Corporation may not exercise any of the other powers conferred by section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section V of the Board's Regulation K.
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> The Board notes that Paragraph Second of the Organization Certificate and Article Third of the Articles of Association have not been revised as suggested by the Board in its letter of April 5, 1955. As indicated in your letter of April 11, under the Edge Act and Regulation K no branches or agencies may be established without the Board's approval, and operations of the Corporation within the United States must be confined to those which, in the judgment of the Board of Governors, are incidental to the Corporation's international or foreign business. Needless to say, the provisions of the Articles and of the Organization Certificate in no way alter the obligation of an Edge Act corporation to conduct its operations, both in the United States and abroad, in conformity with the requirements and limitations prescribed by the statute and Regulation K. In view of these circumstances and since the abovementioned restrictions on the operations of Edge Act corporations are clearly understood, the Board has approved the Articles and Organization Certificate in their present form.
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> The Board of Governors gives its consent to the Corporation's allowing up to 75% of each subscription made from time

to time in respect of preferred stock to be paid in upon call from the Board of Directors, subject to the conditions that

(1) the Board of Directors shall call for payment of such unpaid subscriptions (with respect to any outstanding preferred stock, including stock that has been redeemed and reissued) whenever and to the extent required by the Board of Governors, and

(2) preferred stock of any stockholder who is delinquent in payment of a called subscription shall be subject to sale by the Corporation to the extent necessary to satisfy the delinquency, and the certificates representing preferred stock shall contain a statement to this effect.

The letter was approved unanimously, for transmittal through the Federal Reserve Bank of New York.

Chairman Martin referred to a memorandum to the Board from Mr. Cherry, Legislative Counsel, dated April 21, 1955, which stated that the Subcommittee on Small Business of the Senate Banking and Currency Committee would hold hearings on May 4 and 5, 1955, on a number of bills proposing amendments to the Small Business Act, which expires on June 30 of this year, that among the bills under consideration there would be two (S. 381 and S. 383) concerning which the Board made reports to the Banking and Currency Committee, and that the Board had been asked to have a representative testify on these two bills at the hearings.

In accordance with a suggestion by Chairman Martin, it was understood that Vice Chairman Balderston would supervise the preparation of a draft of testimony and that when the draft was ready the Board would consider how the matter should be handled.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 20, 1955, were approved unanimously.

The meeting then recessed and reconvened at 2:30 p.m. with all of the members of the Board except Governor Vardaman present. Messrs. Carpenter and Kenyon also were present along with Messrs. Sloan, Director, and Nelson, Assistant Director, Division of Examinations.

There had been circulated to the members of the Board a memorandum dated April 13, 1955, from the Division of Examinations regarding the application for membership in the Federal Reserve System filed by the organizers of the "Farmers State Bank of Sullivan", Sullivan, Indiana. The memorandum stated that the Department of Financial Institutions of the State of Indiana had approved the application to organize the proposed bank on January 7, 1955, subject to the obtaining of a satisfactory board of directors, satisfactory officers, and deposit insurance; that the Federal Reserve Bank of St. Louis recommended favorably on the application for membership in the Federal Reserve System; and that the Division of Examinations recommended favorable action, subject to the usual conditions of membership and a special condition that the bank have paid-in capital of $75,000, surplus of $50,000, and other capital funds of not less than $25,000 at the time of admission to membership. The memorandum also stated that the Supervising Examiner of the Federal Deposit Insurance Corporation in charge of the territory in which Sullivan is located had raised certain questions about the organization of the proposed bank in correspondence

with the Federal Reserve Bank of St. Louis, based principally on the report of an examiner for the Corporation in connection with an application for a national bank charter which was made in 1946 by virtually the same group of organizers; that the questions centered principally around one of the organizers and the adequacy of capital funds; that the organizers had now agreed to increase the initial capital from $100,000 to $150,000 and that the individual to whom objection was raised was not to be an officer or director of the bank; and that in the circumstances a representative of the Federal Deposit Insurance Corporation in Washington had advised Mr. Sloan that he saw no objection to admission of the bank to deposit insurance through membership in the Federal Reserve System.

Pursuant to the understanding at the meeting of the Board on April 15, 1955, the following representatives of the Sullivan State Bank, Sullivan, Indiana (an insured nonmember bank) were present at this meeting to state reasons for their opposition to the application of the proposed "Farmers State Bank":

John T. Hays, Attorney, and a director of Sullivan State Bank
R. R. Batton, Chairman of the Board of the Marion National Bank, Marion, Indiana
Harry C. Lowry, Cashier and First Vice President, and a director, of the Sullivan State Bank
Robert G. Lowry, Assistant Cashier, and a director, of Sullivan State Bank

Mr. Hays said the group felt strongly that there was no need for additional banking services in Sullivan County because of its backward economic situation and the banking facilities now available, and in the

light of the county's banking history. He then made a statement which contained the following assertions:

1. While the county formerly was supported to a large extent by coal mining operations, few mines remain in operation and the county is dependent mostly on general agriculture and livestock raising.

2. Since virtually the same group now wishing to organize a new bank sought a charter unsuccessfully in 1937 and again in 1946, there has been no substantial improvement in the county's economic situation except the addition of a few small plants plus improvement in the agricultural situation in certain parts of the county.

3. In the 1920s, five banks operated in the town of Sullivan and a total of 16 banks operated in the county, but they all failed except the Sullivan State Bank.

4. There are now two banks in the county with a total of five offices; in addition, there are several banking offices in towns just outside the county; there is no point in the county where one cannot reach a banking office (other than an office of Sullivan State Bank) within 15 minutes; therefore, many residents of Sullivan County use nearby banking facilities situated outside the county; and at the same time Sullivan State Bank services more than 200 out-of-county deposits and as of a recent date had $248,000 in loans outstanding to persons outside the county.

5. Sullivan State Bank and its directors have played an instrumental part in attempting to bring industries into the county.

Mr. Batton, who served from 1933 to 1941 as a member of the Indiana State Banking Board, discussed bank suspensions in the State in the 1920s and early 1930s and said that according to certain recent studies the substantially reduced number of banking institutions now in existence is adequate to serve the State. After referring to the unsound

banking practices usually connected with an overbanked situation, he cited statistics to show that over the last decade economic progress in Sullivan County has not kept pace with that in the State as a whole and that, in fact, there has been a deterioration in certain respects. As compared with 1937 and 1946, when applications for bank charters in the county were denied, he saw no change in conditions which would indicate any greater necessity for another bank. The fear of his group, he said, was not so much the loss of deposits but rather that additional banking competition would start a rash of bad banking practices that would harm existing institutions and would be difficult for the banking authorities to control. Because of the conditions mentioned, it was his view, he said, that if a new bank could be justified in Sullivan County, other counties could justify from one to five additional banking offices.

In response to a question by Chairman Martin, Mr. Batton said that in considering new bank applications the Indiana banking authorities are obliged to require a showing of capital adequacy, public necessity for the institution, and satisfactory personnel. He added that it is also the policy to require deposit insurance.

With respect to other questions asked by members of the Board, the members of the visiting group stated that the lack of industrial employment was causing younger residents to leave Sullivan County; that Sullivan State Bank's interest rates and service charges are below the average for the area; that the claim could not be substantiated that the

bank was taking advantage of a monopolistic situation; that it was only natural that many residents of the outlying parts of the county deal with out-of-county banks that are close to them; that persons from various parts of the county come to the town of Sullivan regularly because it is the principal trading center; that no case had been made that the bank was deficient in any respect in handling the trade; and that in view of conditions in the county the group would be opposed to an effort by any parties to establish another bank in Sullivan.

The meeting then adjourned.

Secretary