

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 28, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: 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. Marget, Director, Division of International Finance
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 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 branch in Jeddah, Saudi Arabia, and one in or adjacent to Dhahran, Saudi Arabia, and to operate and maintain such branches subject to the provisions of such section; upon condition that, unless the branches are 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 branches without the prior approval of the Board of Governors.

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

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Letter to Mr. Russell E. Shearer, Assistant to the Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

This refers to your letter dated April 7, 1955, in which it was stated that you would appreciate any comments or suggestions we might wish to make concerning the enclosed draft of your proposed reply to Mr. Bill Kirchner's letter of December 9, 1954.

The only suggestion we have is that the sentence "These data are also by States and by class of bank," appearing in item 1B on page 2 of the draft, be deleted or revised, because the data referred to, which appear in Federal Reserve Bulletins, do not show the locations of branches in head office city, head office county, etc., by class of bank.

A draft of our proposed reply to Mr. Kirchner's letter of December 9, 1954, will be submitted to you before it is sent to Mr. Kirchner.

Approved unanimously, together with the following letter to Mr. Shearer and an identical letter to Mr. L. A. Jennings, Deputy Comptroller of the Currency:

In accordance with the procedure agreed upon by representatives of the three Federal supervisory agencies, there is enclosed a copy of our proposed reply to the December 9, 1954, letter received from Mr. Bill Kirchner, Assistant Secretary of the Independent Bankers' Association, relating to information to be supplied by us for the use of the Association's Committee of Future of Bank Ownership.

Any comments or suggestions you may have with respect to the proposed letter and the accompanying tables will be appreciated.

Telegram to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

Relet April 15, 1955 re addition to and alterations of Baltimore Branch building. Board approves acceptance of low bids of \$1,436,250 for general contract and of \$289,661 for elevator contract, as recommended by the boards of directors of the Branch and the Bank. Board authorizes

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expenditure of approximately \$1,930,000 for the program which includes an allowance of 5 per cent for contingencies, as recommended by the directors, and the architect's fee.

Approved unanimously.

Telegram to Mr. Clark, First Vice President, Federal Reserve Bank of Atlanta, reading as follows:

Board authorizes preparation of detailed plans and specifications for the proposed new building for the Nashville Branch on the basis of the preliminary plans and outline specifications submitted with your letter of November 29, 1954 and supplemented by your letters of February 28 and March 24. It is understood that, in accordance with established procedure, upon completion of detailed plans and specifications they will be submitted to the Board prior to requesting bids.

The estimated costs for the building seem relatively high, and it is expected that every effort will be made to keep the costs to a reasonable figure. It is hoped that later estimates and the bids when called for will show material reduction from present estimates.

Approved unanimously.

The following requests for travel authorization were presented:

Mr. Vest, General Counsel. To travel to New York, New York, during the period May 26-28, 1955, to attend a meeting of the Subcommittee of Counsel on Collections, a subcommittee of the Presidents' Conference.

Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics. To travel to Philadelphia, Pennsylvania, during the period May 1-3, 1955, to attend a meeting of the Current Business Developments Committee.

Approved unanimously.

Governor Robertson referred to the consideration which had been given to the mobile banking facilities provided in Puerto Rico by The First National City Bank of New York, and to the Board's letter of February 2, 1955, to the First National City Bank requesting its views.

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He said that the member bank had not yet submitted its views, and that it was understood that The Chase Manhattan Bank, of New York, had acquired two armored trucks to provide similar services and that three local banks in Puerto Rico were in the process of acquiring trucks. He went on to say that the directors of the Federal Deposit Insurance Corporation reportedly were going to contact the Board next week to request action by the Board and that at his request the Board's Division of Examinations had asked the Federal Reserve Bank of New York to contact the First National City Bank and try to obtain its views in response to the Board's letter by the middle of next week.

In response to a question by Governor Vardaman, Governor Robertson said that the First National City Bank, by virtue of its armored car service, was in a position to compete unfairly with the local banks in obtaining business from outlying areas. He also stated that the Chase Manhattan Bank had not asked for the Board's consent to acquire and operate armored trucks, apparently feeling that if the First National City Bank could operate in that manner without objection, they should also be able to follow the practice. He expressed the opinion that the practice was bad in principle, because it enables a larger institution to take business from the areas surrounding a smaller institution, and that the First National City Bank should not be permitted to provide mobile banking facilities in Puerto Rico or elsewhere unless all banks were allowed to do the same thing.

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Governor Szymczak commented that the Board had authorized the armored truck service by the First National City Bank in Puerto Rico and that any action taken at this time would have to be in the nature of amending or rescinding the authority.

In response to further questions by Governor Vardaman, Governor Robertson said he felt that the Board had authority under section 25 of the Federal Reserve Act to specify at what points member banks operating in Puerto Rico may operate, and that such banks cannot provide mobile banking facilities without the consent of the Board. He said that although it was not an unsound practice so far as the First National City Bank itself was concerned, it was unsound to the extent that other banks cannot follow the practice. In this connection, he said that under Puerto Rican law it appeared to be an illegal practice for local banks and that the Federal Deposit Insurance Corporation took the position that insured banks could not provide such services unless a branch was established at each point served. He suggested that branches could be established to serve customers now having the benefit of the mobile banking facilities in Puerto Rico.

Governor Vardaman then referred to pick-up and delivery services provided by some banks in the continental United States and said that he saw no objection to any movement which would bring banking services closer to the general public as long as the interests of depositors and stockholders were not jeopardized. He did not feel that the indirect payment of

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interest was involved any more than in the case of a number of services customarily rendered and that the movement toward mobile banking represented normal progress. While he would not want to give American banks an unfair advantage over local banks in Puerto Rico, he found it difficult to see as a matter of general principle how the banking authorities in this country could protect the smaller banks against the inroads of competition from larger institutions that are able to provide facilities such as mobile banking services.

At this point Mr. Vest, General Counsel, entered the room.

Governor Balderston suggested that there might be two problems for the Board to consider, one being the problem of mobile banking in the continental United States and the other being the special situation in Puerto Rico, and that possibly the Board would reach different decisions on the two problems.

Governor Robertson took the position that the two matters involved essentially the same problem, although the situation in Puerto Rico presented some special questions. He then discussed questions pertaining to mobile banking in the states of New Jersey and Arizona, respectively, one of which matters is the subject of current discussion with the State authorities and the other of which was ruled on unfavorably by the Federal Deposit Insurance Corporation.

Since no action on the part of the Board was required at this time, it was understood that the matter would be considered further in the light of developments.

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Reference was made to a memorandum from Mr. Marget dated April 25, 1955, which had been circulated to the members of the Board, recommending approval of an attached draft of telegram which would authorize the Federal Reserve Bank of New York, pursuant to the Bank's request for approval, to make a loan or loans to the Bank for International Settlements at any time during the year ending May 30, 1956, on condition that each borrowing would mature in not more than seven days and that total borrowing in any calendar month would not exceed the equivalent of \$25 million for a total of seven days. Under the proposed arrangement, which was authorized by the New York Bank's Board of Directors on April 21, 1955, subject to the approval of the Board of Governors, and which would represent an extension, on somewhat different terms, of the arrangement originally made with the Bank for International Settlements in October 1953, the New York Bank would make a commitment charge at the rate of $1/4$ of 1 per cent per annum on the amount by which the loan facility was not used during any calendar month. This would be the first time that a charge would have been fixed under a loan commitment arrangement and would also be the first time that there had been a commitment with a life as long as a year under which the borrower could obtain short-term gold loans.

The proposal was discussed at some length from the standpoint of the precedents that would be established, particularly in view of the study of gold loan procedure currently being made by an ad hoc committee consisting of Governors Szymczak, Mills, and Balderston pursuant to the request of the Board on January 31, 1955.

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It appeared that the proposed arrangement had been discussed with officials of the Bank for International Settlements by Mr. Exter, Vice President of the Federal Reserve Bank of New York, during his current trip to Europe, that Mr. Norman P. Davis, Assistant Vice President of the New York Bank, informed Mr. Marget by telephone on April 20 that the proposal was to be submitted to the Bank's directors the following day, and that Governor Szymczak, upon being advised by Mr. Marget, suggested that the best procedure would be to bring the matter to the attention of the Board of Governors. It also appeared that the work of the ad hoc committee had been delayed due to the fact that when a tentative draft of statement of System policy and procedure on gold loans was presented to the New York Reserve Bank with the request that representatives of the Bank come to Washington to discuss the matter, President Sproul requested that the discussion be deferred until Mr. Exter returned from Europe so that he could participate.

The principal question before the Board, therefore, was whether to approve the current proposal in the knowledge that the ad hoc committee had not yet reached any final decisions and that the Board of Governors, of course, had not had an opportunity to consider the committee's views and establish the procedures to be followed in the future.

Before leaving the meeting to keep another appointment, Governor Mills said that despite any feeling that the New York Reserve Bank might have been somewhat premature in proposing an arrangement which involved a

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departure from an established procedure when it was aware that an overall study was in process, it should also be recognized that preliminary discussions within the ad hoc committee indicated the possibility of a favorable recommendation to the Board that in certain cases commitments for periods longer than six months and the making of a commitment charge be permitted. For this reason, and in view of other factors, including the status of the Bank for International Settlements, the purpose of the loan arrangement, and the status of the negotiations for an extension, it was his opinion that the Board should approve the proposed loan arrangement but that the telegram to the New York Reserve Bank should make it clear that the Board's approval in this particular case was not to be taken as a precedent with respect to the commitment period of a year or the making of a commitment charge. Accordingly, he felt he would want to vote against taking a position that the loan arrangement should be limited to six months and that no commitment charge should be made.

Governor Mills then withdrew from the meeting.

The discussion continued and it was the view of the remaining members of the Board excepting Governor Balderston that, pending action on the ad hoc committee report, the Board should go no further than to approve a six-month extension of the existing loan arrangement with the Bank for International Settlements, with no commitment charge. Governor Vardaman supported such action because he did not look with favor on a commitment as long as one year and also because of the status of the gold loan study.

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Governors Szymczak, Robertson, and Shepardson did not take a position adverse to the principle of a one-year commitment or the making of a commitment charge, their views being based on a disinclination to change the usual gold loan terms before the Board had acted to establish a System procedure covering loans on gold. Governor Balderston's position was similar to that of Governor Mills. In view of the fact that the System procedure, when adopted, might permit both longer-term commitments and commitment fees, he pointed out that unfavorable action on the New York Reserve Bank's proposal could prove to be inconsistent in the light of developments. He also felt that such action might complicate the more important objective of reaching agreement on System gold loan policy and procedures.

At the conclusion of the discussion, approval was given to a telegram to Mr. Norman P. Davis, Assistant Vice President, Federal Reserve Bank of New York, in the following form, Governor Balderston voting "no" for the reasons that he had stated:

Your wire April 21 re credits by your Bank to Bank for International Settlements. Until the reaching of conclusions on proposed new statement of System procedure on gold loans, Board does not consider it desirable to initiate the making of commitments for periods longer than six months nor to initiate the making of a commitment charge. However, if your Bank determines to extend the existing loan arrangement, covering the making of a loan or loans to the Bank for International Settlements up to a total amount outstanding at any one time of \$25 million, for a further period extending to a date not later than October 31, 1955, Board approves such extension, on the following terms and conditions:

A. Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you.

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B. Each such loan to mature in not more than seven days.

C. Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.

D. The loan arrangement to expire not later than October 31, 1955.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

Messrs. Marget and Dembitz then withdrew from the meeting.

Governor Robertson referred to a letter from Mr. Arthur L. Flemming, Director of Defense Mobilization, to various Government agencies proposing a meeting of the agency public relations officers at the White House to discuss the information program in connection with the forthcoming civil defense exercise. Governor Robertson suggested that Mr. Thurston, Assistant to the Board, be designated to attend the meeting as the Board's representative.

This suggestion was approved unanimously.

Governor Balderston stated that following the return of Chairman Martin he would like to have a discussion at a meeting of the Board concerning the desirability of suggesting to the Congress the establishment of a national monetary commission. He expressed concern over various "piecemeal" attacks on the Federal Reserve System and said that a broad study by such a commission might provide sound recommendations with respect to the present monetary system and with respect to a number of problems that may be faced in the future.

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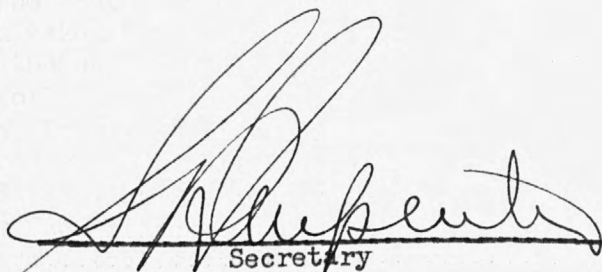
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Reference then was made to the two staff papers, of which copies were transmitted to the members of the Board with Mr. Carpenter's memorandum dated April 22, 1955, relative to the request of the Chairman of the House Committee on Government Operations for an audit of the Federal Reserve System. With respect to the paper entitled "The Federal Reserve System and the Comptroller General", Governor Robertson suggested a shorter version. After some discussion of Governor Robertson's views, the understanding was reached that he would meet with appropriate members of the staff this afternoon with a view to preparing an alternative memorandum and sending copies to the members of the Board early next week.

Reference also was made to a memorandum which the Division of International Finance had prepared concerning the auditing of foreign central banks and it was understood that copies would be furnished to all of the members of the Board.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 27, 1955, were approved unanimously.

The meeting then adjourned.



Secretary