

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 2, 1955. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
 Mr. Szymczak  
 Mr. Vardaman  
 Mr. Shepardson

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Vest, General Counsel  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Hackley, Assistant General Counsel

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

Memorandum dated May 20, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Margaret V. Hastings as Clerk in that Division, with basic salary at the rate of \$3,030 per annum, effective as of the date on which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated May 24, 1955, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Beverly A. Murphy, Records Clerk in the Office of the Secretary, be accepted effective June 22, 1955.

Approved unanimously.

Letter for the signature of the Chairman to Mr. Harold E. Stassen, Director, Foreign Operations Administration, Washington, D. C., reading as follows:

This is in reply to your letter of May 11 regarding the need of an expert adviser in the field of central banking for Laos.

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I am glad to inform you that we have now located a possible candidate in the Federal Reserve System, who seems to be well qualified for the mission that you describe. The candidate is Mr. William A. Hurst, who is associate economist at the Federal Reserve Bank of San Francisco. However, as to the length of the proposed assignment, the Federal Reserve Bank of San Francisco does not feel able to make Mr. Hurst's services available for a period of more than six months.

If you find that Mr. Hurst's services for a period of six months will be useful for your purposes, we shall be very happy at the opportunity to cooperate with FOA in this matter.

Members of the staff of the Board here will be glad to assist, to any extent necessary, in working out the details of the arrangement between your organization and the Federal Reserve Bank of San Francisco and Mr. Hurst. Mr. Lewis N. Dembitz, Assistant Director of the Board's Division of International Finance, has been requested to keep in touch with your organization regarding this matter.

A copy of this letter is being sent to Mr. C. E. Earhart, President of the Federal Reserve Bank of San Francisco, who has also received a copy of your letter of May 11.

Approved unanimously.

Letter to the Board of Directors, First Bank and Trust Company of South Bend, South Bend, Indiana, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by First Bank and Trust Company of South Bend, South Bend, Indiana, at 4706 West Western Avenue, South Bend, Indiana, provided the branch is established within one year from the date of this letter.

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

Telegram to Mr. Perrin, Federal Reserve Agent, Federal Reserve Bank of Minneapolis, authorizing, subject to the following condition, the issuance of a general voting permit, under the provisions of section 5114 of the Revised Statutes of the United States, to Northwest Bancorporation, Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of The First National Bank of Grand Rapids, Grand Rapids, Minnesota, at all meetings of shareholders of such bank:

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Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190).

Approved unanimously.

Letter to Mr. Grant W. Anderson, Vice President, Northwestern National Bank of Minneapolis, Minneapolis, Minnesota, reading as follows:

This refers to your letter to Chairman Martin of May 17, 1955, concerning the application of the Board's Regulation U to loans by banks to finance the purchase of stock pursuant to employees' stock purchase option plans. With your letter was enclosed a copy of a stock option agreement issued to certain of its key employees by General Mills, Inc. You indicated that your bank frequently has been asked by its customers to make loans pursuant to that plan and similar plans.

Regulation U provides that no bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange in an amount exceeding the maximum loan value prescribed by the Board for the collateral. As you indicated, under the present Supplement to the regulation the maximum loan value of any stock, whether or not a registered stock, is 30 per cent of its current market value. (Loans to purchase the "redeemable securities" of open-end investment companies are also subject to the regulation, but it does not appear that the stock purchase option plans of interest to you involve securities of this type.)

Accordingly, where the stock of the corporation offered under its employee stock option purchase plan is registered stock and the bank loan to finance a purchase under the plan is secured directly or indirectly by any stock, the loan would be subject to the 30 per cent maximum loan value limitation. There is no exception in the regulation covering such transactions, and the Board does not believe that the language of the regulation is susceptible of an interpretation which would allow preferential treatment for such transactions.

As an alternative, you suggested that the regulation be amended to permit a 60 per cent or 70 per cent maximum loan value, for example, in the case of loans to finance purchases

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under stock purchase option plans of the kind in question.

A possible amendment of this kind to Regulation U, and also to Regulation T relating to brokers, was the subject of a thorough study by the Board in 1953. Following its examination of the relevant considerations, including those covered in your letter, the Board decided not to amend its regulations. It was the Board's view that amendments to give corporate personnel privileges not generally available to others would seem to be concerned chiefly with the problem of compensation, rather than questions of credit or credit regulation, and that, in view of the purposes of Regulations T and U, it seemed doubtful that such special credit privileges would be an appropriate means of attempting to solve problems which appeared to be essentially non-credit in character. The Board does not believe that it would be justified at this time in departing from the above conclusions.

Should you have any further questions concerning the regulation, it is suggested that you might find it more convenient to contact the Federal Reserve Bank of Minneapolis, which will be glad to assist you.

Governor Vardaman inquired whether the Board would wish to reconsider the position with respect to stock purchase option plans which was adopted in 1953, pointing out that there were a number of arguments which could be cited in favor of such incentive plans and that increases in margin requirements tended in the direction of greater restriction.

At the Board's request, Mr. Vest then summarized the considerations which led the Board to conclude in 1953 that amendments to the margin regulations to facilitate employees' stock option plans were not warranted.

In a further discussion of the matter, during which Chairman Martin and Governor Robertson joined the meeting, Governor Balderston said that he had given study to plans of this kind before he became a member of the Board and that there would seem to be reason for distinguishing between

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company executives, who perhaps should be "partners" in the firm with which they were connected, and ordinary employees. In the case of employees, he saw grounds for questioning whether it would always be prudent for them to invest in the company by which they were employed. He said that it would appear difficult to devise an exception to the margin regulations which would be applicable to the executive group alone.

Chairman Martin noted that persons in the executive group usually are able to make arrangements through various channels to participate in stock purchase option plans if they desire to exercise the privilege. He considered it important that all feasible means be explored to improve the market for equity securities, which he termed just as important as the market in Government securities. As to incentive plans for executives and employees, he commented that one must keep in mind the matter of fairness and equity as between participants and other investors. In summary, he felt that there the greater need was to encourage plans that would be helpful to the market in general.

Governor Vardaman stated that his principal reason for raising the question was to call the matter to the attention of the newer members of the Board and that, if they were fully satisfied with the Board's position, he would not object to the sending of the letter.

Thereupon, unanimous approval was given to a letter to Mr. Anderson in the form set forth above, with the understanding that a copy would be sent to the Federal Reserve Bank of Minneapolis and that the substance of the letter would be transmitted to the Presidents of all Federal Reserve Banks for their information.

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Reference was made to the following draft of letter to Mr. Walter F. Ryan, Clearance Officer, Division of Statistical Standards, Bureau of the Budget, Washington, D. C., which had been circulated to the members of the Board:

This is to request clearance for the enclosed form "Assets and Liabilities of Finance Companies" for use in a special survey of these companies. Two copies of the proposed form and instructions and two copies of your form 83 Request for Clearance are enclosed.

The proposed form would be mailed in the early part of July to obtain information as of June 30 on the assets and liabilities of finance companies engaged in purchasing consumer paper or direct lending to consumers. The primary purpose of the survey is to provide a benchmark for the Board's estimates of consumer credit held by sales finance companies, consumer finance companies and other lenders of this general type. The last benchmark information for these companies was obtained from the Regulation W registration in September 1950. Current information is badly needed to provide a check on the accuracy of our estimates and to provide a basis for reviewing and redesigning our monthly reporting samples.

The proposed form has been discussed with representatives of the American Finance Conference, the National Consumer Finance Association and the Industrial Bankers Association and with representatives of several of the largest companies in this area. A preliminary version of the form was sent to Mr. Crowder of your office for his information.

Approved unanimously.

The following requests for travel authorization were presented:

Mr. Leonard, Director, Division of Bank Operations. To travel to New York, New York, on June 12 and 13, 1955, to attend a meeting of the Special Committee on Emergency Operations.

Mr. Masters, Assistant Director, Division of Examinations. To travel to Philadelphia, Pennsylvania, during the period June 6-9, 1955, to meet with the examining staff of the Federal Reserve Bank of Philadelphia.

Approved unanimously.

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There had been circulated to the members of the Board a file relative to the request of First National Company of Paris, Paris, Texas, that it be determined not to be a holding company affiliate of The First National Bank of Paris except for the purposes of section 23A of the Federal Reserve Act. Included in the file were (1) a memorandum from Mr. Sloan dated May 23, 1955, from which it appeared that there was no affiliation between the First National Company of Paris and any Dallas bank, and (2) a memorandum from Mr. Hackley dated May 25, 1955, concerning the effects of granting or not granting the requested determination.

Governor Robertson stated that this was a case which appeared to fall within the policy of the Board concerning "one-bank cases" which was adopted last year. However, as he had indicated when that policy was under discussion, he considered it to be erroneous. In the case now before the Board, he saw nothing to be gained by making an exemption. He did not feel that this was the kind of case where the Congress intended that an exemption should be granted, and he pointed out that the company would enjoy no substantial advantages from obtaining the exemption except that it would not be under obligation to maintain the prescribed reserves of readily marketable assets or to pay dividends only out of net earnings.

Mr. Hackley agreed with Governor Robertson that the case seemed to fall within the policy established by the Board last year. As to the policy, however, he felt that it was one which conformed to the apparent intent of the law, that is, to govern holding companies involving a series of banks.

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Since the Paris case involved only one controlled bank, he felt that the Board would be warranted in granting the requested determination, there appearing to be no extraordinary features which would seem to necessitate an exception to the general policy. He noted that the directors of First National Company were also directors of the national bank so that the company would remain an affiliate and therefore would be subject to examinations and would be required to furnish reports of condition. In the circumstances, he said, little if anything would be lost from the supervisory standpoint by granting the determination.

Thereupon, approval was given to a letter reading as follows to Turner, White, Atwood, McLane and Francis, Dallas, Texas, for transmittal through the Federal Reserve Bank of Dallas, Governor Robertson voting "no" because he did not agree with the policy adopted by the Board with respect to section 301 determinations:

This refers to the request contained in your letter of April 7, 1955, submitted through the Federal Reserve Bank of Dallas, for a determination by the Board of Governors as to the status of First National Company of Paris, Paris, Texas, as a holding company affiliate.

From the information supplied, the Board understands (1) that First National Company of Paris was organized solely for the purpose of financing the acquisition of the capital stock of First National Bank of Paris, Paris, Texas, and the building in which it is located; (2) that such Company owns 9,000 of the 12,500 outstanding shares of common stock of such national bank; (3) that investments of such Company consist solely of the stock of First National Bank of Paris and the building in which the bank is located; (4) that such Company does not engage in any other activities; (5) and that such Company does not directly or indirectly own or control any stock of, or manage or control, any banking institution other than First National Bank of Paris.

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In view of these facts the Board has determined that the First National Company of Paris is not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, the First National Company of Paris is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that the First National Company of Paris might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

Reference then was made to the request of the Quincy Trust Company, Quincy, Massachusetts, for permission to establish a branch at 106 Pleasant Street in that section of the Town of Weymouth known as South Weymouth, Massachusetts. Preliminary consideration was given to this matter at the meeting on May 12, 1955, at which time it was decided to request from the Federal Reserve Bank of Boston further data in support of the Bank's recommendation that the request be declined. Additional information was supplied in a letter from Vice President Latham dated May 16 and the file had been recirculated to the members of the Board with a memorandum from Mr. Sloan dated May 25 which stated that the Division of Examinations continued to recommend unfavorably.

Governor Robertson said that he considered the case a very questionable one, that although the further information furnished by the Boston

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Reserve Bank did not add a great deal to the file, it did bring out the small number of businesses in the part of the town of Weymouth where the branch was proposed to be established, and that in all the circumstances he was not now inclined to vote against the recommendation of the Boston Reserve Bank. He then referred to the request of Quincy Trust Company, made through a Washington attorney, for permission to present its case to the Board before a final decision was made and stated that he would favor giving the trust company a hearing.

At the conclusion of a discussion, it was agreed unanimously to extend to the Quincy Trust Company, through its Washington attorney, an invitation to have its representatives meet with members of the Board on Wednesday, June 8, 1955, at 9:00 a.m.

Prior to this meeting there had been circulated to the members of the Board a letter addressed to Chairman Martin under date of May 11, 1955, by Mr. Byron Moser, of St. Louis, Missouri, who urged that Mercantile Trust Company of St. Louis be ordered to dispose of stock of the Mercantile-Commerce National Bank by returning the stock to trustees who held it before 1951 for the benefit of certain holders of certificates of beneficial interest. Along with Mr. Moser's letter there had been circulated a memorandum from Mr. Hackley dated May 20, 1955, referring to previous discussions and correspondence with Mr. Moser and setting forth in some detail the background of the matter referred to in the letter, including consideration given to the situation by the Board at various times in the past. To

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the memorandum was attached a draft of reply which would advise that the Board was not presently contemplating any action with respect to the transaction in question and that there was no further comment which the Board was in a position to make at this time.

At the instance of Governor Vardaman, there was a general discussion of the circumstances involved. It was agreed that in view of the history of the matter, including the fact that the Board raised no objection in 1951 to the technical violation of the law which occurred when Mercantile Trust Company exercised its option to repurchase the stock of the Mercantile-Commerce National Bank, there was no action which the Board should take with respect to the matter.

At the conclusion of the discussion, unanimous approval was given to a letter from Chairman Martin to Mr. Moser in the following form, with the understanding that copies of Mr. Moser's letter and the reply would be sent to the Federal Reserve Bank of St. Louis as a matter of information:

Your letter of May 11, 1955, with respect to the purchase in 1951 by the Mercantile-Commerce Bank and Trust Company of the stock of the Mercantile-Commerce National Bank afforded me an opportunity to look again into the questions which your letter raises. I have also discussed the matter with the Board.

As indicated in your letter, the stock of the Mercantile-Commerce National Bank, which had previously been held by certain trustees, was acquired in 1951 by the Mercantile-Commerce Bank and Trust Company (now the Mercantile Trust Company) and then transferred to a wholly owned subsidiary of the Trust Company and all the stock of that subsidiary was in turn transferred to new trustees for the benefit of shareholders of the Trust Company.

The Board recalled that you have discussed this matter with members of the Board and its staff on several occasions

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in the past and that the Board is in full possession of all of the facts. While the Board appreciates fully your personal interest, it does not contemplate any action with respect to the matter.

Chairman Martin referred to a memorandum addressed to him under date of June 1, 1955, by Mr. Young, Director, Division of Research and Statistics, in which Mr. Young stated that he had been invited by the Federal Reserve Bank of Chicago to participate in its institute on central banking techniques, a seminar for college teachers of money and banking to be held September 7-9, 1955, and that in the absence of objection he would like to accept the invitation.

Mr. Young was authorized to accept the invitation.

Governor Robertson referred to arrangements made recently with the American Bankers Association to conduct a survey concerning consumer loans by banks. He said that the Council of Economic Advisers, desiring information of this sort, had proposed a survey of selected banks through the three Federal bank supervisory agencies under a plan whereby the Federal Deposit Insurance Corporation would devise a questionnaire and make other arrangements, but that upon being advised of the other survey, members of the Council favored relying upon that survey, with its more detailed and precise questionnaire and better coverage of banks. He went on to say that this morning a representative of the Office of the Comptroller of the Currency advised him by telephone that, at the request of the Secretary of the Treasury, plans were being made to go forward with the survey through the

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bank supervisory agencies. Governor Robertson felt that the conducting of two surveys might indicate concern regarding the consumer credit situation, particularly since certain banks would be approached on both occasions. He also felt that the collection of data through the supervisory agencies would be less productive and would have the disadvantage of using those agencies for a purpose not incidental to their ordinary functions.

Following a discussion of various alternatives, Chairman Martin stated that while the turn of events was rather unfortunate, he was inclined to doubt whether a great deal of harm would be done if both surveys were conducted. He indicated that he would speak to the Secretary of the Treasury regarding the situation since it appeared that the latter might not be aware of the survey being planned by the American Bankers Association.

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

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

The Chairman later informed the Secretary that during the executive session the following letter for his signature to Mr. Coleman, Chairman of the Federal Reserve Bank of Chicago, was approved:

This letter is in response to Mr. Dawes' reply of May 9 to the Board's letter of April 22 relating to the employment of Negroes at the Federal Reserve Bank of Chicago.

The Board of Governors was familiar with much of the information contained in Mr. Dawes' letter and it has considered the steps outlined in the reply for meeting the problem. There is a substantial turnover of employees in certain of the departments of the Federal Reserve Banks, such as the transit

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department, and other Federal Reserve Banks have employed Negroes in some of these departments with satisfactory results. It is the Board's view, therefore, that a more satisfactory arrangement than that outlined in Mr. Dawes' letter would be for your Bank to take immediate steps to recruit qualified Negroes in these departments of your Bank and branch as the turnover vacancies occur.

It is recognized that many who apply for employment, regardless of race, may not have the necessary qualifications for the positions to be filled. That problem can be met to a considerable extent by making known the qualifications required for the positions. The Board finds it difficult to believe that there are not some members of such a large portion of the population of Chicago, as is represented by the colored race, who possess the qualifications for positions in a Federal Reserve Bank and in addition are good security risks. As you know, the other Federal Reserve Banks have found employment of Negroes in a number of clerical and non-clerical positions quite satisfactory.

The Board will appreciate it if you will advise of the consideration given to this matter at the next meeting of your directors.

The meeting then adjourned.

Secretary's Note: The Bureau of the Budget having indicated that it would have no objection, the following letter was sent yesterday over the signature of Chairman Martin to the Honorable J. W. Fulbright, Chairman of the Committee on Banking and Currency, United States Senate, this being the same letter that was sent to the Budget Bureau for comment on April 4, 1955, except for the addition of the last paragraph and a rewording of the third paragraph to take into account an interim increase in the free market price of silver:

This is in response to Mr. Yingling's letter of March 15, 1955, requesting an opinion as to the merits of the bill S. 1427 "To repeal certain legislation relating to the purchase of silver, and for other purposes."

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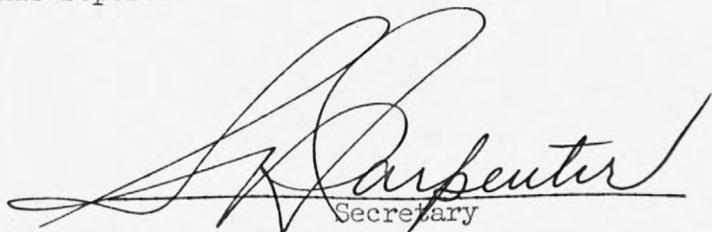
This bill would repeal the Silver Purchase Act of 1934, Section 4 of the Act of July 6, 1939, the Act of July 31, 1946, and certain sections of the Internal Revenue Code. It would provide for the maintenance by the Treasury Department of certain reserves in silver bullion or silver dollars against outstanding silver certificates and for the exchange of silver certificates on demand for silver dollars; and it would authorize the Secretary of the Treasury to coin silver dollars and to provide for subsidiary silver coinage.

The principal effect of the bill would be to eliminate from the law provisions fixing the price at which silver is purchased by the Secretary of the Treasury. In the past few years the New York market price for foreign silver has been below 90.5 cents and all domestic production of silver has been sold to the Treasury; and the Treasury, by virtue of the Act of July 31, 1946, may not sell silver at less than 90.5 cents an ounce. Recently the market price has risen and approached 90.5 cents. The price is unlikely to rise very much above this level since at that point American produced silver would tend to flow to the market rather than to the Treasury.

To the extent that silver purchased by the Treasury may be monetized through coinage or through the issue of silver certificates, such purchases have the effect of increasing the country's money supply with a resulting increase in bank reserves and in the base for credit expansion. Such arbitrary additions have no relation to the need for bank reserves and, from a credit point of view, are unnecessary as long as the supply of gold and Federal Reserve credit continues to be ample. Additions to bank reserves through monetization of silver have been relatively small in amount, however, and can be offset, if necessary, so that the purchase of silver does not substantially affect the general credit or monetary situation at this time.

The Federal Reserve has expressed the view on several occasions in the past that it would not be desirable to extend the role which silver plays in our monetary system. Due to the factors pointed out above, it would appear that sound reasons continue to exist for revision of the present silver purchase laws.

The Bureau of the Budget advises that it has no objection to the submission of this report.

  
Secretary