

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 27, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of
 Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Hackley, Assistant General Counsel
 Mr. Cherry, Legislative 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 June 20, 1955, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Thomas Francis Gearin as Analyst in that Division, with basic salary at the rate of \$4,580 per annum, effective as of the date on which he enters upon the performance of his duties.

Approved unanimously.

Memorandum dated June 15, 1955, from Mr. Sprecher, Assistant Director, Division of Personnel Administration, recommending an increase in the basic salary of Rubye M. Brice, Clerk in that Division, from \$3,270 to \$3,415 per annum, effective July 3, 1955.

Approved unanimously.

6/27/55

-2-

Letter to Mr. Angney, Assistant Vice President, Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of May 25, 1955, requesting the Board's approval of the payment of salary to Mr. John P. Flaherty, Assistant Examiner B, at his present rate of \$5,750 per annum, \$70 in excess of the current maximum for the grade in which his position is classified. In view of the circumstances as set forth, the Board of Governors approves the continuation of payment of salary to Mr. Flaherty, at the rate of \$5,750 per annum, for an additional period not exceeding six months from June 1, 1955.

It has been the Board's policy to encourage the Reserve Banks to follow as closely as possible the salary limits established for the various grades. There are instances, of course, where strict adherence to this policy would create hardships and in such cases the Board has approved the continuation of salaries falling outside of the established grade limitations for short periods. The Board's letter to your Bank dated August 28, 1947, relating to the adoption of the Plan of Job Classification and Salary Administration for Federal Reserve Banks, stated that "when it is deemed necessary, an employee may be temporarily assigned, for a period not exceeding six months, without change in salary, to a position having a maximum lower than the salary he is receiving or to a position having a minimum higher than he is receiving, without obtaining the approval of the Board of Governors."

This provision was incorporated in the plan primarily to assist the Banks in meeting temporary personnel problems by assigning employees to positions where the current salary paid might not be within the salary limitations established for the positions involved. It should be noted that this provision was not contemplated as a means of granting salary adjustments beyond grade limits.

Approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in your letter of June 15, 1955, the Board approves the designation

6/27/55

-3-

of Paul Donald Ring as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in the examinations of State member banks only.

Approved unanimously.

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

The Board of Governors has reviewed the proposed changes in official staff at your Bank as set forth in your letter of June 9, 1955, and approves the payment of salaries to the following officers for the period from August 1, 1955, through December 31, 1955 at the rates indicated, if fixed by your Board of Directors at such rates.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
William J. Abbott, Jr.	Vice President	\$13,500
Guy S. Freutel	Assistant Vice President	12,000
Marvin L. Bennett	Assistant Vice President	10,000
William E. Walker	Assistant Vice President	7,800
<u>Little Rock Branch</u>		
Sherley C. Davis	Assistant Manager	8,500
<u>Memphis Branch</u>		
Wilbur H. Isbell	Assistant Manager	8,000

Approved unanimously.

Letter to Mr. Paul H. Helms, Chairman of the Board, Helms Bakeries, Los Angeles, California, reading as follows:

Your letter of May 27, 1955, to Mr. Earhart submitting your resignation as a director of the Los Angeles Branch of the Federal Reserve Bank of San Francisco has been brought to the attention of the Board of Governors. The members of the Board sincerely regret to learn from your letter that you have found it impossible to attend any of the meetings at the Los Angeles Branch since last November and that you feel that

6/27/55

-4-

you will be unable to attend any meetings prior to the expiration of your term. Under the circumstances, the Board of Governors has accepted your resignation as you request effective June 1, 1955, and wishes you to know of its appreciation of your contribution to the Federal Reserve System during your service as a director.

The comments contained in your letter with respect to your association with the Los Angeles Branch are most gratifying, and the Board hopes your interest in the welfare of the System will continue.

Letter to Mr. Bryant Essick, President, Essick Manufacturing Company, Los Angeles, California, reading as follows:

Your letter of May 26, 1955, submitting your resignation as a director of the Los Angeles Branch of the Federal Reserve Bank of San Francisco, because of your association with a commercial bank, has been brought to the attention of the Board of Governors. The Board has accepted your resignation, effective today, and wishes you to know of its appreciation of your contribution to the Federal Reserve System during your service as a director.

The provision in the Board's regulations that directors of branches of Federal Reserve Banks appointed by the Board of Governors shall be persons not primarily engaged in banking and preferably not directors of banks represents an extension of the principle established in the Federal Reserve Act that some of the directors of a Federal Reserve Bank should not be associated with commercial banks. We feel sure that you will appreciate the reasons underlying this policy of diversified representation.

The comments contained in your letter with respect to your association with the Federal Reserve System are most gratifying, and the Board hopes that you will continue to maintain an active interest in the System and its problems.

Approved unanimously, together
with the following letter to Mr.
Earhart, President of the Federal Reserve
Bank of San Francisco:

Enclosed are copies of the Board's letters to Mr. Essick and Mr. Helms accepting their resignations as directors of

6/27/55

-5-

the Los Angeles Branch. In the light of the circumstances described in your letter of June 1, 1955, the Board agrees that it is preferable to accept Mr. Essick's resignation to be effective at this time.

With respect to the acceptance of Mr. Helms' resignation, the Board feels that, inasmuch as it appears that he will be unable to attend any meetings prior to the expiration of his present term, no particular purpose would be served through his retention as a director.

Appointments to fill the resulting vacancies are under active consideration by the Board of Governors.

Letter to the Board of Directors, Bank of the Commonwealth, Detroit, Michigan, 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 the Bank of the Commonwealth on the north side of Gratiot Avenue near Mohican Avenue, Detroit, Michigan, provided the branch is established within nine months from the date of this letter.

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

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

Reference is made to your letter of June 7, 1955, submitting the request of the Arnold Savings Bank, Arnold, Missouri, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an additional investment of \$70,392.31 in new banking premises.

The Board has given consideration to the asset condition, management, earnings, capital structure, and prospects of the Arnold Savings Bank, Arnold, Missouri, as well as your favorable recommendation, and approves the additional investment of \$70,392.31 in banking premises. It is assumed the bank will make additional charge-offs of banking premises as earnings permit and also that the present conservative dividend rate will be continued.

Approved unanimously.

6/27/55

-6-

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

In your letter of June 9, 1955, you made further reference to Regulation U and indicated that many banks, in financing purchases of registered stock pursuant to stock purchase option plans for corporate personnel, make loans on "an unsecured basis or on a basis where the security is inadequate" in order to extend to individual borrowers more credit than would be permissible under the regulation if the loans were secured directly or indirectly by stock. You suggested that, were it not for the regulation, these loans could be made on stock collateral "without risk to the banks".

Regulation U, like Regulation T applicable to brokers, is issued pursuant to that part of the Securities Exchange Act of 1934 which is aimed at preventing the "excessive use of credit for the purchasing or carrying" of securities, and it refers to the "general credit situation of the country." In exercising its authority under the Act, the Board clearly could have made Regulation U applicable to virtually all loans by banks "for the purpose of purchasing or carrying" registered stocks. However, in issuing Regulation U, the Board provided that, unless a loan for such purpose is also "secured directly or indirectly by any stock", the loan would not be subject to the regulation. Thus, in effect, the exclusion of "purpose" loans not so secured constitutes an exception to the regulation. A principal reason for this exception was to simplify the operation of the regulation for the banks affected, since the "secured by" test is a ready means of identification. As you will appreciate, regulatory restrictions on unsecured loans would, in practice, tend to place some burdens on even those unsecured loans which are not for the purpose of purchasing or carrying registered stock.

It is a difficult problem to decide exactly how far it is best to go in restraining ordinary lending operations as a part of an authority such as that vested in the Board under the Securities Exchange Act of 1934. All things considered, the Board believes that, at least up to this time, the decision to exclude unsecured loans from the coverage of Regulation U has proved to be reasonable and in the public interest.

By their essential nature, the Act and regulation are not concerned immediately with the soundness of individual

6/27/55

-7-

loans. So far as the present regulation is concerned, that matter is left with the sound judgment of the various banks which, of course, are expected to comply in good faith with the regulation. However, the Board appreciates the comments in your letter, and practices such as you referred to will be borne in mind in connection with its bank supervisory functions, and also as a part of its continuing study of the regulation.

Approved unanimously, with
a copy to the Federal Reserve
Bank of Minneapolis.

Memorandum dated June 20, 1955, from Mr. Hackley, Assistant General Counsel, reading as follows:

It will be recalled that Mr. Byron Moser of St. Louis recently wrote Chairman Martin regarding the acquisition in 1951 by Mercantile Trust Company of St. Louis of stock of the Mercantile Commerce National Bank, urging that the Board "order" that this stock (now held by trustees for the benefit of shareholders of the Trust Company) be returned to certain trustees by whom it was held prior to its purchase in 1951. The Board approved a reply dated June 3, 1955, advising Mr. Moser that the Board does not contemplate any action in this matter.

Mr. Moser has again written a letter to Chairman Martin in which he says only that he wonders "if you would tell me if the laws have been changed since 1935, when the Board said it would not approve the exercise of the option."

It would be possible to advise Mr. Moser that the laws on this subject have not changed since 1935, but that the Board has not approved the Trust Company's exercise of its option to purchase the stock in question.

However, since Mr. Moser's question is largely rhetorical and since any reply would probably serve only to prolong the correspondence, it is suggested that his present letter be noted and filed without reply.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Dallas, and San Francisco approving the establishment without

6/27/55

-8-

change by the Federal Reserve Banks of Boston and St. Louis on June 20, by the Federal Reserve Bank of San Francisco on June 22, and by the other Federal Reserve Banks mentioned above on June 23, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There had been sent to the members of the Board copies of a draft of statement concerning Bill S. 2054, to amend the Securities Exchange Act of 1934, for presentation by Chairman Martin at a hearing later today before the Subcommittee on Securities of the Senate Banking and Currency Committee. The draft would express agreement with the purposes of S. 2054, particularly section 3, and the views would be along the lines of the letter-report regarding the bill which the Board approved on June 17, 1955, with the understanding that it would be transmitted to the Chairman of the Senate Banking and Currency Committee after the comments of the Bureau of the Budget were obtained.

One question raised by the draft was whether to include a comment with regard to exemptions under section 3 of the bill to the effect that the Congress might want to consider making the number of stockholders rather than the number of security holders the basis for exemption, inasmuch as the difficulty in determining the number of bondholders might outweigh any benefits to be derived from including them. While there appeared to be some sentiment on the part of members of the Board in favor of basing exemptions on the number of stockholders, it was suggested that any such statement might preferably come from the Securities and Exchange Commission.

6/27/55

-9-

Mr. Solomon said he understood that the Commission was planning to offer some comment on that point. Accordingly, it was agreed that reference to the matter should not be included in Chairman Martin's statement.

In a further discussion, suggestions were made for a number of editorial changes in the draft.

At the conclusion of the discussion, the statement, in a form revised to incorporate the suggestions agreed upon at this meeting, was approved unanimously.

Mr. Sherman then withdrew from the meeting.

Governor Robertson reported that last week he attended a meeting arranged by the Council of Economic Advisers, at which the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and a representative of the Treasury also were present, to discuss consumer credit problems. While the members of the Council in attendance did not favor reinstitution of controls over consumer credit, they felt that certain administrative steps might be taken, including an approach through the bank examination function which would assure that bank directors were made fully familiar with the policies and procedures being followed by their officers in respect to consumer loans. Governor Robertson said he informed the meeting that a committee was reviewing the pertinent bank examination report pages, along with examiners' work papers, with a view to making revisions which would insure that the examiner had adequate information concerning the consumer lending activities of the bank under

6/27/55

-10-

examination and would also insure that the examination report afforded the directors a complete picture. He went on to say that his statement was well received by the members of the Council. He also said that the work of the committee had progressed to the point that it would be possible to send draft material to the Comptroller of the Currency and the Federal Deposit Insurance Corporation today with a request for their comments by July 8, the date of the next committee meeting. He further proposed sending the material to Mr. Carl M. Flora, Chairman of the Advisory Board to the Instalment Credit Commission of the American Bankers Association, with a request for his views as to whether the data called for would present a satisfactory picture of the consumer lending operations in any given bank. In this connection, he expressed the opinion that it was highly important to have complete uniformity of approach to the problem within the three Federal bank supervisory agencies.

Governor Robertson then commented that at the meeting last week he also spoke of (1) steps being taken by which it was hoped to obtain monthly figures on consumer credit operations from about 100 of the largest banks and (2) the survey of consumer lending by banks now being undertaken by the Instalment Credit Commission of the American Bankers Association. In this connection, he expressed the thought that when the survey was completed, it would be well for the Board to invite members of the Instalment Credit Commission and, later, representatives of finance companies to meet with the Board for the purpose of discussing current problems in the area of consumer financing.

6/27/55

-11-

Agreement was expressed with all phases of the program outlined by Governor Robertson.

Governor Robertson then reported that this morning he received a telephone call from an aide to Senator Robertson of Virginia who indicated that the Senator contemplated introducing a bank holding company bill this afternoon and that he would like to have comments on the draft. Governor Robertson said he explained the difficulty in preparing suitable comments in the time allotted, whereupon it was stated that the Senator would be agreeable to deferring the introduction of the bill until tomorrow.

Governor Robertson suggested to the Board that as an alternative he might send to Senator Robertson a draft of a bill prepared by the Board's staff which would reflect the Board's views on bank holding company legislation as expressed to the Congress last year, with two minor changes, and a draft of the Spence bank holding company bill, as marked earlier this year to reflect the Board's comments. In that way, he pointed out, Senator Robertson would be free to use the material as he saw fit.

The comment was made that the introduction of a bill by Senator Robertson might mean that no bank holding company legislation would be passed at this session of Congress and the question was raised whether, in the circumstances, the members of the Board would be inclined to support the Spence bill (H. R. 6227) which had already passed the House of Representatives. None of the members of the Board indicated that they would be inclined to recommend the Spence bill.

6/27/55

-12-

At the conclusion of a further discussion, Governor Robertson was authorized to transmit to Senator Robertson the two drafts that he had mentioned and to make such comments in transmitting them as he considered appropriate in the light of the views expressed at this meeting.

Messrs. Hackley and Cherry then withdrew from the meeting.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 23, 1955, were approved unanimously.

The following persons entered the room at this point:

Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Marget, Director, Division of International Finance
 Mr. Horbett, Assistant Director, Division of Bank Operations
 Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics
 Miss Burr, Assistant Director, Division of Research and Statistics
 Mr. Koch, Assistant Director, Division of Research and Statistics
 Mr. Molony, Special Assistant to the Board
 Mr. Hersey, Chief, Special Studies Section, Division of International Finance
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
 Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
 Mr. Simpson, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics
 Mrs. Projector, Mr. Tynan Smith, Miss Stockwell, and Mr. Trueblood, Economists, Division of Research and Statistics

Mr. Mills, First Vice President, Federal Reserve Bank of Minneapolis
 Mr. Angney, Assistant Vice President, Federal Reserve Bank of Boston

6/27/55

-13-

Messrs. J. Frederic Dewhurst, George Terborgh,
Martin Gainsbrugh, Raymond Goldsmith, and
Arthur Smithies, Consultants to the Board

Messrs. Dewhurst, Gainsbrugh, Terborgh, Goldsmith, and Smithies were present as chairmen of the consultant groups appointed by the Board to study and evaluate, at the request of the Congressional Joint Subcommittee on Economic Statistics, data in the following fields: inventory statistics, general business expectations, business expectations with regard to plant and equipment expenditures, savings, and consumer expectations. At the request of the Board, they commented on the studies made by their respective groups, including the assessment of available statistics and recommendations for improvements that might be made. Each of the chairmen distributed either a draft of the full report of his group or a summary of the unfinished report.

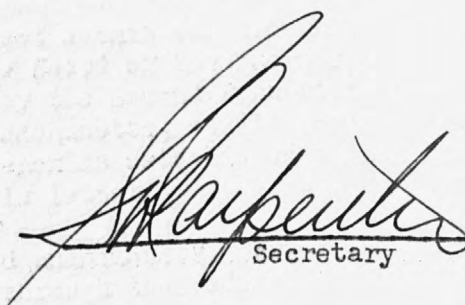
Since the report of the committee on consumer expectations, headed by Mr. Smithies, dealt rather extensively with the Surveys of Consumer Finances, several questions were raised by the Board after Mr. Smithies had reviewed the findings and recommendations contained in the report. Among other things, Mr. Smithies was asked whether the making of the surveys by the University of Michigan Survey Research Center under contract with the Board appeared to be an acceptable method and his response was in the affirmative, it being his observation that the staff of the Survey Research Center seemed to be carrying out its functions competently and that most of the shortcomings of the surveys, as cited in the report, could be overcome with more experience. The controls exercised by the

6/27/55

-14-

Board over the work at the Survey Research Center seemed to him to be sufficient and effective. On the question of the effect of publishing the results of the surveys should they reflect a pessimistic outlook, it was Mr. Smithies' opinion and the consensus of the other consultants that the release of the most accurate information obtainable was a proper function of a Government agency, that it might in fact tend to allay rumors within the business community based on less trustworthy sources of information, and that it would contribute to the formulation of appropriate Government policy. There was admittedly some concern that there could be misinterpretation of survey findings because of a possible failure to give due weight to the experimental nature of the survey technique, and for this reason it was felt that the data published by the Board with respect to the surveys should be presented in as careful a manner as possible.

The meeting then adjourned.


Secretary