Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 7, 1955. The Board met in the Board Room at 9:50 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. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Johnson, Controller, and Director, Division of Personnel Administration

Mr. Moody, Vice President, Federal Reserve Bank of Atlanta
Mr. Olson, Vice President, Federal Reserve Bank of Chicago

The following members of the staff of the Division of Research and Statistics also were present:

Mr. Young, Director
Mr. Garfield, Adviser on Economic Research
Miss Burr, Assistant Director
Mr. Koch, Assistant Director
Mr. Jones, Chief, Consumer Credit and Finances Section
Mr. Simpson, Chief, Business Finance and Capital Markets Section
Mr. Allen, Economist
Mr. Culbertson, Economist
Miss Dingle, Economist
Mr. Keir, Economist
Mr. Trueblood, Economist
Mr. Wood, Economist

The staff members of the Division of Research and Statistics presented a review of current economic and financial conditions. Following a discussion based on the review, they withdrew from the meeting along with Messrs. Thomas, Johnson, Moody, and Olson, and Messrs. Leonard, Director, Division of Bank Operations, Bethea, Director, Division of Administrative Services, and Sloan, Director, Division of Examinations, entered the room.

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 Mr. Piderit, Manager, Bank Examinations Department, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter dated June 28, 1955, regarding the plan of The Chase Manhattan Bank, New York, New York, to move its Union Square Branch from 31 Union Square to new quarters at 200 Fourth Avenue, New York, New York. It is noted that the proposed new location is one block to the north and one block to the east of the present location.

Since it appears that this move would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of business or customers served, we concur in your opinion that the approval of the Board of Governors is unnecessary.

Approved unanimously.

Letter to the Board of Directors, California Bank, Los Angeles, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of branches by California Bank at 505 East Colorado Street and at 85 East Colorado Street, Pasadena, California, provided (a) a merger with Union National Bank of Pasadena is effected substantially in accordance with the terms of the merger agreement dated June 6, 1955, a copy of which has been furnished us by the Reserve Bank, and (b) the branches are established within six months from the date of this letter.

The Board of Governors also approves the establishment of a branch by California Bank at 407 West Seventh Street, Los Angeles (San Pedro), California, provided (a) a merger with Fishermen and Merchants Bank is effected substantially in accordance with the terms of the proposed merger agreement, a copy of which was also supplied by the Reserve Bank, and (b) the branch is established within six months from the date of this letter.

It is understood that fixed assets acquired by your bank through the mergers will not be carried on your books at values in excess of their depreciated values for tax purposes.

It is also understood that when the merger with the San Pedro bank is effected, the branch which you now operate in that community will be abandoned and its operations will be consolidated in the quarters now occupied by the Fishermen and Merchants Bank.

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

Memorandum dated July 1, 1955, from Mr. Sloan, Director, Division of Examinations, submitting for approval letters to the following foreign banking corporations, the first four of which were organized under State laws but operate under agreements made with the Board pursuant to the provisions of section 25 of the Federal Reserve Act, and the last three of which were chartered by the Board under the provisions of section 25(a) of the Act, requesting that they submit reports of condition and certain other information as of June 30, 1955:

Bankers Company of New York
First of Boston International Corporation

International Banking Corporation
Morgan & Cie. Incorporated
Bank of America
The Chase Bank
American Overseas Finance Corporation

Approved unanimously, together with a letter to the Federal Reserve Bank of New York enclosing copies of the letters to the foreign banking corporations and calling attention to the fact that the reports were to be transmitted to the Board through the New York Reserve Bank.

Telegram to Mr. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

> Retel June 22 re alterations and additions to head office building, Board interposes no objection to acceptance of bid of Dinwiddie Construction Co. on guaranteed maximum cost of $770,050, as recommended by the directors. Board authorizes expenditure of approximately $888,000 for the program, which includes an allowance of approximately $50,000 for contingencies, as recommended, and the architect's fee and other items listed in your telegram.

In response to a question by Chairman Martin, Mr. Leonard said that the proposal of the San Francisco Reserve Bank seemed to be entirely in order. At first, he said, there was some question in his mind regarding acceptance of the bid of Dinwiddie Construction Company rather than the bid of another firm, but a telephone conversation with First Vice President Mangels cleared up those questions, as indicated in the file which was circulated to the Board. He added that the Reserve Bank was satisfied that acceptance of the Dinwiddie bid would be more advantageous to the Bank, taking all factors into consideration.

Thereupon, the telegram to First Vice President Mangels was approved unanimously.

At the meeting of the Board on June 17, 1955, consideration was given to a request of Fidelity Union Trust Company, Newark, New Jersey, for approval of its absorption of The Peoples National Bank & Trust Company of Irvington, Irvington, New Jersey, and the establishment of a branch at the present location of the national bank. Action was deferred at that time with the understanding that the Federal Reserve Bank of New York would be asked to reconsider the matter from the standpoint of the effect of the transaction on the competitive situation and to obtain the views of the New Jersey State banking authorities on the competitive aspects. In a letter submitted by the New York Reserve Bank under date of June 24, 1955, in response to the Board's request, the Reserve Bank stated that after a further review of the competitive situation it saw no reason to change its previous recommendation that the Board's approval be given. The Reserve Bank also advised that the Commissioner of Banking and Insurance of New Jersey had been asked for his views and, for the reasons stated in the letter, had no objection to the proposed transaction. The file, with the supplemental letter from the New York Reserve Bank included, had been recirculated to the members of the Board prior to this meeting.

In commenting on the matter, Mr. Sloan said it was the feeling of the Federal Reserve Bank of New York that Newark and Irvington were really one community for practical purposes and that the proposed absorption would not materially affect the competitive situation in the community as a whole. Since the Reserve Bank was entirely familiar with the local situation, he felt that its views should be accepted, particularly since they were held also by the New Jersey State banking authorities.

Governor Robertson then made a statement in which he referred to the proposed transaction as a borderline case. While recognizing that there was some merit in the argument that Irvington was really a suburb of a larger city and that there were a substantial number of competing banks in the general area, he said he was forced to the conclusion that the request of Fidelity Union Trust Company should be declined by the Board on the theory that the absorption would result in an undue lessening of competition in Irvington and would allow Fidelity Union Trust Company to attain a position where it would hold such a large percentage of deposits as to dominate the local situation. In response to a question, he said that intimate knowledge of the community and the banking relationships in the area might disclose facts which would justify the favorable action recommended by the Federal Reserve Bank of New York, but that in his opinion the material presently in the file did not provide a basis for approval of the proposed absorption.

In a discussion of the matter which ensued, the other members of the Board stated that although, as Governor Robertson had indicated, the case was borderline, they would be inclined to accept the judgment of the New York Reserve Bank and the New Jersey State banking authorities on the assumption that investigation by those parties and their knowledge of the local banking conditions provided them with reasons to conclude that even after the absorption, facilities would be available in the area to provide adequate competition. In this connection, Chairman Martin stated that although he was familiar with the Newark area in general, he would hesitate to vote against the recommendations of the Reserve Bank and the State banking authorities in a case of this kind, since he felt that in the interest of good administration it was necessary for the Board to be certain of its position before reversing a Reserve Bank's recommendation.

Thereupon, approval was given to the following letter to the Board of Directors, Fidelity Union Trust Company, Newark, New Jersey, for transmittal through the Federal Reserve Bank of New York, Governor Robertson voting "no" for the reasons which he had stated:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the absorption of The Peoples National Bank & Trust Company of Irvington, Irvington, New Jersey, by the Fidelity Union Trust Company, Newark, New Jersey, and also approves the establishment of a branch at 1102 Clinton Avenue, Irvington, New Jersey, the present location of The Peoples National Bank & Trust Company of Irvington, provided that (a) the transaction is effected substantially in accordance with the plan as presented through the Federal Reserve Bank of New York, (b) the banking premises to be acquired from The Peoples National Bank & Trust Company of Irvington are not placed on the books of your bank at an amount in excess of the depreciated value as computed for Federal income tax purposes, (c) formal approval is obtained from the appropriate State authorities, and (d) the absorption and establishment of the branch are accomplished within six months from the date of this letter.

It is understood that your branch at 1097 Clinton Avenue, which is directly across the street from the proposed branch, is to be consolidated with the new branch and moved to its quarters at 1102 Clinton Avenue, Irvington, New Jersey, within a reasonable time after the effective date of the absorption.

Prior to this meeting, there had been circulated to the members of the Board various documents relating to the request of Mercantile Trust Company, St. Louis, Missouri, for permission to establish a facility on its parking lot at Eighth Street and Lucas Avenue, a distance of about two blocks from the bank's main office. The facility and the main office would be connected by means of a pneumatic tube, and the question had been raised whether the second office would constitute a branch. An opinion had been rendered by the Attorney General for the State of Missouri to the effect that the operation of the facility would not violate the laws of the State. It was the view of the Board's staff that under the Revised Statutes of the United States and the pertinent provisions of the Federal Reserve Act, operation of the facility should be held to constitute the operation of a branch, and it was recommended that the Board's action be in the form of an approval of the establishment and operation of a branch by the State member bank, with functions limited to those permissible under State law. Accordingly, it was proposed that a letter reading as follows be transmitted through the Federal Reserve Bank of St. Louis to the Board of Directors of the Mercantile Trust Company:

> The Board of Governors has given consideration to your request, submitted through the Federal Reserve Bank of St. Louis, for approval of the establishment and operation of a "facility" at Eighth Street and Lucas Avenue in the city of St. Louis.
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> In the opinion of the Board, the operation of the proposed facility, as described in the attachments to Mr. Cravens' letter of May 26 to Mr. D. C. Johns, will constitute the operation of a branch within the purview of section 5155 of the Revised Statutes and section 9 of the Federal Reserve Act. The Board approves the establishment and operation of such branch at the described location, with functions limited to those which may legally be performed at a facility of this character under the banking laws of the State of Missouri.
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> The approval granted herein shall cease to be effective if the branch is not established and in operation within six months from the date of this letter.

Approved unanimously.

There had been sent to the members of the Board copies of a draft of letter to the Honorable Arthur S. Flemming, Director of the Office of Defense Mobilization, Washington, D. C., which would transmit, as requested in Annex 9 to Office of Defense Mobilization release dated April 28, 1955, a further evaluation report on the Board's participation in Operation Alert 1955.

In a discussion of the matter, Governor Balderston stressed the dependence that would have to be placed on communications by the Board and the Federal Reserve Banks to carry out essential functions in the event of a war emergency. He also questioned whether, in such an emergency when prompt communication would be essential to rehabilitation and functioning of the economy, there would any compelling reason for coding of messages relating to these matters.

Mr. Leonard responded by referring to the comments in the proposed letter and report bearing on the matter of communication and transportation facilities. After stating that he agreed fully with the views expressed by Governor Balderston in regard to the coding of messages, Mr. Leonard said that the subject had been taken up from time to time in interagency discussions, that there appeared to be differences of opinion within the Office of Defense Mobilization and the Federal Civil Defense Administration, and that in his opinion the requirements currently prescribed would have to be modified in the event of an actual emergency.

Further discussion related to the advisability of taking all possible steps looking toward the establishment of adequate communication and transportation priorities for the Federal Reserve System in an emergency and it was agreed that the draft of letter to the Office of Defense Mobilization should be revised to bring out this point more forcefully.

In connection with the matter of communications, Mr. Bethea summarized documents received yesterday from the Office of Defense Mobilization regarding the use of communication facilities. He also summarized a memorandum to Governor Robertson which he had prepared after discussing certain of these problems with an official of the Office of Defense Mobilization.

Governor Robertson suggested that copies of the incoming material be sent to each Federal Reserve Bank along with a copy of Mr. Bethea's memorandum, that the Office of Defense Mobilization be asked to confirm the statements made orally to Mr. Bethea, and that copies of the letter of confirmation also be sent to the Federal Reserve Banks.

There was unanimous agreement with the procedure suggested by Governor Robertson and it was understood that he would pursue the problem of adequate communication and transportation facilities for the Board and the Federal Reserve Banks in the event of an emergency.

Following further discussion of the evaluation report, unanimous approval was given to a letter for the signature of Chairman Martin to Mr. Flemming in the following form:

As requested in Annex 9 to ODM Release April 28, 1955, we have reviewed and evaluated Operation Alert 1955 from the standpoint of the Board's participation in the test. Transmitted herewith are three copies of the report of that review.

The test demonstrated:

That the Board can operate effectively from the relocation center if adequate communications facilities are available.

That the four specific problems prepared for the test were satisfactorily met, but that in actual emergency the success or failure of Federal Reserve operations would depend to a great extent upon adequate communication and transportation facilities.

That much remains to be done by Government in planning for emergency economic measures.

It is believed essential that appropriate priorities for the Federal Reserve Board and the Federal Reserve Banks in the use of communication and transportation facilities be firmly established.

The Board cannot stress too strongly the need for the early development of an over-all emergency economic program. Decisions as to such matters as war damage indemnification, rationing of goods and materials, moratoriums, and Government measures for guarantee of loans to businesses and individuals must underlie much of the planning by various agencies and would be of prime importance in planning monetary and credit policy.

The Board's planning for and participation in the test were based on the prescribed assumptions. We have no way of knowing, of course, whether programs developed on such assumptions would be adequate for an actual emergency.

Secretary's Note: Pursuant to the Board's action, the following letter, having been approved by Governor Robertson, was sent today to the Presidents of all Federal Reserve Banks:

As you know, the Board participated in the Government emergency relocation exercise which was conducted on June 15-17. A copy of the evaluation of the exercise is enclosed for the confidential information of the personnel of your Bank who you think should see it.

In connection with the question of the availability of communication facilities, there are enclosed for your information two copies of a memorandum addressed to Chairman Martin under date of June 27, 1955, by Mr. Harold M. Botkin, Assistant Director for Telecommunications, Office of Defense Mobilization, with attachments, regarding "Precedence Systems for Communications Essential to the National Defense and Security over Facilities of United States Domestic and International Telephone and Telegraph Carriers."

Also enclosed are copies of a memorandum of this date addressed to Governor Robertson by Mr. Bethea containing some informal interpretations obtained from Mr. Botkin by telephone with regard to certain portions of his memorandum and its attachments. A copy of Mr. Bethea's memorandum is being furnished to Mr. Botkin with a request that he confirm in writing our understanding of the position he has taken with respect to the questions raised. When a reply has been received copies thereof will be forwarded to you. Likewise, you will be furnished with any information growing out of the ODM staff study now under way, which is expected to be completed next month, if and when the results thereof are made available to the Board.

Chairman Martin's letter of July 7 to Mr. Flemming, Director of ODM, transmitting the evaluation report of the June relocation exercise, stated that the Board believed it essential that appropriate priorities for the Federal Reserve Board and the Federal Reserve Banks in the use of communication and transportation facilities be firmly established. The question of whether the enclosed memorandum dated June 27, 1955, provides the necessary assurance of appropriate priorities for communications will be explored further with ODM.

At the meeting on June 28, 1955, it was agreed to request the Chairman of the Federal Reserve Bank of Richmond to ascertain whether Mr. Lewis P. Seiler would accept appointment as a director of the Baltimore Branch of the Federal Reserve Bank of Richmond.

Advice having been received that Mr. Seiler would not be able to accept, consideration was given to other persons who had been suggested in a letter addressed to Governor Balderston under date of June 20, 1955, by Mr. Decker, Deputy Chairman of the Richmond Bank.

It was agreed unanimously to request the Chairman of the Federal Reserve Bank of Richmond to ascertain whether Mr. W. Purnell Hall, Jr., Executive Vice President, Maryland Shipbuilding and Drydock Company, Incorporated, Baltimore, Maryland, would accept appointment, if tendered, as director of the Baltimore Branch for the unexpired portion of the term ending December 31, 1955, and to make the appointment if it were ascertained that Mr. Hall would accept.

At this point, all of the members of the staff except Messrs. Carpenter and Riefler withdrew from the meeting.

At the request of Chairman Martin, Mr. Riefler stated that a representative of the Commodity Credit Corporation was going to call at the Board's offices this afternoon to discuss the possibility of financing some of the agricultural commodity holdings of the Corporation through the medium of bankers' acceptances. Mr. Riefler said that the matter had been discussed by representatives of the Corporation with New York bankers and that the proposal would raise a number of questions, including whether this form of financing should be used by a Government agency and the fact that the Board previously had taken the position that the acceptance mechanism should not be used to keep commodities off the market. There was also the possibility that if the operation were undertaken it might become necessary for the Board to rule on the question whether the resulting acceptances would be eligible for discount by the Federal Reserve Banks.

At Chairman Martin's suggestion, it was understood that Governor Balderston and Mr. Riefler would meet with the representatives of the Corporation for the purpose of developing full information regarding the proposal.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 6, 1955, were approved unanimously.

Messrs. Carpenter and Riefler then withdrew and the Board went into executive session.

> The Secretary later was informed by the Chairman that during the executive session the Board approved a memorandum dated June 24, 1955, from Mr. Marget, Director, Division of International Finance, which recommended that Frank M. Tamagna, Chief of the Financial Operations and Policy Section in that Division, be authorized to travel to Mexico City to deliver lectures at the Center for Latin American Monetary Studies during the period from July 11 through July 22, 1955, and that for purposes of this travel, his per diem in lieu of subsistence be fixed at a rate equal to the rate of per diem that he would receive under the Board's travel regulations in connection with official travel within the United States.

The meeting then adjourned.

Secretary