

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 11, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research
and Statistics
Mr. Solomon, 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 June 30, 1955, from Mr. Johnson, Controller, and Director, Division of Personnel Administration, recommending that the resignation of Rubye M. Brice, Clerk in the Division of Personnel Administration, be accepted effective July 15, 1955.

Approved unanimously.

Letter to the Board of Directors, Camillus Bank, Camillus, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by the Camillus Bank, Camillus, New York, at the southeast corner of the intersection of New York Route 5 and Onondaga Road in the unincorporated area of Fairmount, Town of Camillus, New York, provided (1) that prior to the establishment of the branch the bank's capital stock shall be increased to not less than \$100,000, and (2) the branch is established within one year from the date of this letter.

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It is understood that the increase in capital is to be accomplished by the declaration of a stock dividend of \$20,000 and the sale of \$20,000 of new common stock at a premium of \$10,000 which is to be credited to undivided profits.

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

Letter to the Board of Directors, The Union Bank of Commerce Company, Cleveland, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the northeast corner of Cedar and Warrensville Center Roads, South Euclid, Ohio, by The Union Bank of Commerce Company, Cleveland, Ohio, provided the branch is established within one year from the date of this letter.

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

Letter to the Board of Directors, The Brecksville Bank, Brecksville, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch on Royalton Road just east of the intersection with Ridge Road, North Royalton, Ohio, by The Brecksville Bank, Brecksville, Ohio, provided the branch is established within one year from the date of this letter.

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

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

This refers to your letter of June 15, 1955, and its enclosures, concerning whether section 32 of the Banking Act

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of 1933, as amended, prohibits Mr. Henry Dahlberg, proprietor of Henry Dahlberg & Company, Tucson, Arizona, from serving at the same time as a director of the Southern Arizona Bank & Trust Company, Tucson, Arizona, a member bank. It appears that Mr. Dahlberg was elected to the board of directors of the bank on April 13, 1955, subject to proper qualification.

Mr. Dahlberg is prohibited by the statute from serving as a director of the bank if Henry Dahlberg & Company is "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities."

The information submitted indicates that the main or chief business of the Company is brokerage; that it does not hold itself out as being in the "underwriting or distributing" business; and that it has never "headed or set up a corporate underwriting."

However, it appears that the Company has "participated" in the underwriting or distribution of corporate and municipal securities, which clearly is included among the kinds of businesses described in the statute. With respect to this business, the information submitted for the Company for each of the years 1951 through 1954 shows (1) that its annual dollar volume thereof was \$1,084,614.85, \$1,983,918.99, \$1,960,707.42, and \$3,800,242.10, respectively; (2) that the annual ratio of such dollar volume to the dollar volume of the Company's total business was approximately 17 per cent, 30 per cent, 20.8 per cent and 25.4 per cent respectively; (3) that the annual gross income from such participations was \$19,667.14, \$16,256.60, \$21,389.99, and \$25,974.75, respectively; (4) that the annual ratio of such income to the Company's total gross income was approximately 24 per cent, 17.6 per cent, 23.7 per cent and 11.4 per cent, respectively; and (5) that for each such year, respectively, the Company participated in the underwriting or distributing of 13, 23, 39, and 52 issues of securities.

The information submitted states that the Company does not have "any separate department for the handling of underwriting and distributing." However, it appears that it does have an "investment trust department." This, together with the listing of "Mutual Funds" in the copy of the "typical" advertisement of the Company which was enclosed with your letter, suggests that the Company sells and distributes mutual fund (open-end investment company) shares, although it is not

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clear whether this business of the Company, if any, has been included in the information submitted as business of a kind described in section 32. In this connection, it may be stated that the Board has taken the position that a securities firm's sales of open-end (or mutual fund) shares distributed by the firm as principal under selling agreements with the national sponsors of several open-end investment companies and for which the firm receives a dealer's discount, plus a distribution charge, should be regarded as included among the kinds of businesses described in the statute.

Aside from the matter discussed in the above paragraph, however, on the basis of the Board's understanding of the information as presented, the Board is of the opinion that Henry Dahlberg & Company is "primarily engaged" in business of the kinds described in section 32 and that, therefore, Mr. Dahlberg's proprietorship of the Company prohibits him from serving at the same time as a director of the member bank.

Accordingly, unless there is further information bearing upon the applicability of the statute which the parties concerned may wish to bring to the attention of your Bank and the Board, it is assumed that steps will be taken in due course to bring the matter in question into conformity with the statute.

In connection with this case, reference was made to Mr. William H. Mitchell, a partner of Mitchell, Hutchins & Co., Chicago, Illinois, who also is a director of Continental Illinois National Bank and Trust Company of Chicago. The Board has not had occasion to pass upon Mr. Mitchell's interlocking relationship. However, we understand that the Federal Reserve Bank of Chicago is of the opinion that Mitchell, Hutchins & Co. is not "primarily engaged" within the meaning of section 32 and, in this connection, we are advised informally that the section 32 business of that firm proportionately is far less than that of Henry Dahlberg & Company.

Approved unanimously, with
a copy to Mr. Hodge, General
Counsel, Federal Reserve Bank of
Chicago.

Letter for the signature of Chairman Martin to Mr. Sproul, Chairman, Special Committee on Emergency Operations, c/o Federal Reserve Bank of New York, reading as follows:

Your letter of June 29 requests information as to any revision or expansion contemplated by the Board of Governors

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in its emergency planning in order that the Special Committee might suggest to the Federal Reserve Banks any modifications in the program proposed for them that may seem desirable in the light of the emergency planning of the Board.

At the present time there are but four matters in this connection that might be mentioned:

Plans are under way for arranging for an alternate relocation site in case the need should arise. The Federal Reserve Bank of Richmond has been asked to include in its planning for a relocation center provision for the Board at the same site.

The Board's plan for emergency operations provides, as you know, that in the case no Board Member is available in the emergency the Board's powers and functions are delegated to an Interim Board made up, in the order specified, of three members or alternate members of the Federal Open Market Committee. A list so composed does not include the three Presidents of Federal Reserve Banks who, at any given time, are neither members nor alternate members of the Federal Open Market Committee. We contemplate that at the time of the next revision of the plan, this list will be expanded to include all Presidents.

The program for post-attack functioning and rehabilitation of banking institutions, described in the memorandum dated April 6, 1953, is being reviewed. We do not know, of course, how it might be revised and how such revisions might affect the Board's planning. Copies of the memorandum of April 6, 1953, with the related drafts, were furnished to Mr. Schlaikjer and members of his Subcommittee who are reviewing the drafts from the legal point of view. Copies were also furnished members of the Special Committee, and we would welcome any suggestions from your Committee as to the program.

Drafts of the proposed DMO relating to matters coming within the scope of the Treasury and the Federal Reserve have not yet been received from the Office of Defense Mobilization. Such an Order, if issued, might affect the emergency planning of both the Board and the Federal Reserve Banks. When advice as to developments with respect to the DMO is received, we shall let you know.

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The Board appreciates the work you and the Committee are doing to help prepare the System for any emergency, and we shall be glad to keep you informed as to any contemplated revisions or expansion in the emergency planning of the Board.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Minneapolis, Dallas, and San Francisco approving the establishment without change by the Federal Reserve Bank of Boston on July 5, by the Federal Reserve Bank of San Francisco on July 6, and by the other Federal Reserve Banks mentioned above on July 7, 1955, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Governor Vardaman joined the meeting.

Chairman Martin stated that the suggestion had been made to him that considerable amounts of credit were going into the stock market and that the Board should consider a further increase in margin requirements.

This matter had been discussed in recent executive sessions of the Board and it was considered at this meeting in the light of comments by Mr. Young to the effect that on the basis of the latest statistical information available there had not been any appreciable increase in the total of stock market credit (customers' debit balances and bank loans for the purpose of purchasing or carrying securities) since the increase in margin requirements in April of this year and that the present level of margin requirements apparently was effective in restricting the growth of

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this form of credit. Mr. Young pointed out that loans by banks to individuals for purposes other than the purchase of securities had increased substantially in the second quarter and that some of this credit might be finding its way into the market through the medium of individuals purchasing automobiles and other things on credit and using available cash to purchase securities. He also said that during the first six months of this year the amount of residential mortgage credit extended was in excess of the value of new construction during the period, which meant that some homes were being mortgaged for purposes other than to finance the purchase of the properties and that it was possible that some of these funds were being used to purchase stocks. It was suggested that some business concerns might be using cash to purchase securities and borrowing from banks to meet their working capital requirements. Some foreign funds were also finding their way into the market.

In a general discussion of conditions in the security markets, Governor Robertson inquired whether it would be feasible to require the amortization of loans made by brokers and banks for the purchase and carrying of securities. It was the consensus of those present that such action would not be a desirable step in the regulation of the use of credit in the securities markets.

There was a discussion of whether the present volume of stock market credit should be regarded as being excessive. It was the consensus that the growth of such credit was not out of line with the growth of other

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forms of credit and that if it were not for the wide price variations in issues in which there had been special activity because of contemplated splits or other special factors there would be little occasion for considering an increase in margin requirements at this time.

Reference was made to the effect on stock prices of the fact that a considerable volume of listed stocks was held in retirement and pension funds and investment trusts and was not available for trading in the market. The suggestion was made that, because of the limited supply of stocks, cash trading could increase prices appreciably and that this would be particularly true if other assets were being pledged for cash with which to purchase securities and credit was finding its way into the market in other forms as suggested earlier in the discussion. It was pointed out that the Board would have no way of reaching these other sources of funds except by adopting a more restrictive general credit policy.

The suggestion was also made that, if stock prices continued to rise, the differential in yields of common stocks and bonds would decline to a point where pension funds and other holders would sell stocks and buy bonds. Consideration was also given to whether the Board would be justified in increasing margin requirements in the face of the liberal mortgage policies being followed by other Federal agencies.

Mr. Solomon referred to the possibility of action by the Board to reinstitute the so-called substitution rule which would require the proceeds of sales of securities from undermargined accounts to be used to bring the

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margin up to the current requirement. The possible effects of such action and the circumstances under which it might be taken were discussed but no decisions on this point were reached.

Chairman Martin commented that on the basis of prospective earnings it was difficult to say that prices of stocks were too high and that if earnings expectations were not realized in the last half of the year stock prices might decline very rapidly. Mr. Young stated that it would be September 1 before the bulk of earnings statements for the second quarter of the year would be available.

At the conclusion of the discussion Chairman Martin suggested that the members of the Board continue to study the problem so that should conditions develop which called for action on margin requirements, such action could be taken promptly.

Governor Robertson referred to his comment at the meeting on June 27, 1955, with respect to dates when representatives of banks and consumer finance companies might be invited to Washington to discuss current and prospective trends with respect to instalment credit terms. It was his suggestion that these discussions be held during two days on the 9th, 10th, or 11th of August, with luncheons for the representatives on the days they are here.

There was unanimous agreement with this suggestion.

Governor Robertson also said that work on the proposed changes in reports of examination of national and State member banks to give the boards of directors and the supervisory authorities a clearer picture of

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what each bank is doing in the field of consumer credit would be completed shortly. He said that the Federal Deposit Insurance Corporation would not participate in the changes immediately but was favorable to the suggestion and after the changes had been made in the reports of examination of national and State member banks the Corporation would decide whether the changes would be adopted for insured nonmember banks. Governor Robertson added that, in order that there might be no misunderstanding as to what was intended by the changes, it was proposed that a letter be sent to the banks concerned explaining the reasons for the changes. Drafts of such a letter were being prepared in the Office of the Comptroller of the Currency and the Board's offices and Governor Robertson expected to submit a draft to the Board later this week.

At this point all of the members of the staff who were present with the exception of Mr. Carpenter withdrew and Mr. Sloan, Director of the Division of Examinations, joined the meeting.

Before this meeting there had been circulated among the members of the Board alternate drafts of a letter to the California Bank, Los Angeles, California, in response to its request for approval of the establishment of a branch in Fullerton, California. One of the drafts would approve the application and the other would say that the Board had concluded that it would not be justified in approving the application principally for the reasons that (1) the immediate area in which it was proposed to establish

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the branch was now served by existing and well-established branches, that another bank was opening or had opened a new branch within one block of the facilities now in existence, and that these branches undoubtedly could supply the community with complete and satisfactory banking services, (2) on the basis of the volume of business of the existing branches the establishment of a branch by the California Bank would tend to create an over-banked situation in the immediate area which would be contrary to the public interest, and (3) it did not appear that sufficient business would be generated in the immediate area to permit the branch to build up an adequate and profitable volume of business in competition with the other facilities and therefore the establishment of the branch would not serve the interests of the bank's stockholders.

Governor Mills had appended a note to the file indicating that he would favor approval of the application and Messrs. Balderston and Vardaman had initialed concurrence with that position.

At this meeting Governor Robertson stated that, while this was a case on which opinions might well differ, he believed it was important that it be declined primarily for the reason that the three branches already authorized in the area could adequately serve the community and there was no need for the facilities that would be provided by the applicant bank, and also for the reason that approval of the application would set an undesirable precedent and would indicate an attitude of undue liberality in the

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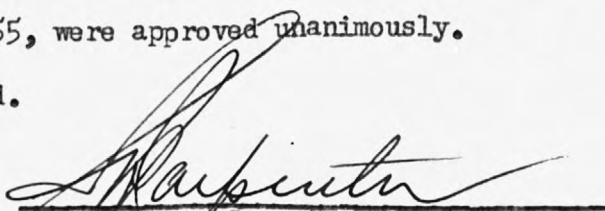
approval of applications which undoubtedly would be followed by other bank supervisory agencies, resulting in an over-banked condition in various parts of the United States.

The matter was discussed at some length in the light of Governor Robertson's comments and the other members of the Board concurred in the view that for the reasons stated by Governor Robertson the application of the California Bank should not be approved. In a discussion of the letter to be sent to the member bank it was agreed unanimously that instead of the statement of reasons set forth in the alternate draft of letter referred to above, the letter to the member bank should state that the Board had concluded that it would not be justified in approving the application and that this decision was based principally upon the facts that the immediate area in which it was proposed to establish the branch was now served by existing branches, that another branch was being established within one block of the facilities now in existence, that these branches undoubtedly could supply the community with complete and satisfactory banking services, and that in these circumstances it was the view of the Board that there was no apparent need for additional banking facilities in the area at the present time.

In taking the above action it was understood that if other bank supervisory agencies should follow a policy of authorizing branches in similar circumstances, the Board should promptly authorize the California Bank to establish the proposed branch at Fullerton.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 7, 1955, were approved unanimously.

The meeting then adjourned.


Secretary