

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 14, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Koch, Assistant Director, Division of Research and Statistics
 Mr. Myrick, Assistant Director, Division of Bank Operations
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, 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:

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective July 17, 1955:

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|---------------------------------|-------------------------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| | <u>Board Members' Offices</u> | | |
| Doris I. Abell, Stenographer | | \$4,210 | \$4,345 |

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Salary increases, effective July 17, 1955 (continued)

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|--|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| <u>Office of the Secretary</u> | | | |
| Cornelia A. Bates, Supervisor, Non-Current Records and Records Disposal | | \$4,755 | \$4,890 |
| Beatrice Hunter, Assistant Chief, Files Section | | 5,845 | 5,980 |
| Mildred E. Pilger, Supervisor, Administrative, Subject, and FOMC Files | | 5,510 | 5,645 |
| Sudelle Rice, File Clerk | | 3,345 | 3,430 |
| <u>Research and Statistics</u> | | | |
| Callie L. Watson, Clerk | | 3,430 | 3,515 |
| <u>Bank Operations</u> | | | |
| Nyart S. Sharigan, Clerk-Stenographer | | 3,585 | 3,670 |
| <u>Administrative Services</u> | | | |
| Robert H. Craft, Operator (Tabulating Equipment) | | 3,585 | 3,670 |
| Mary F. Murphy, Clerk | | 3,215 | 3,300 |
| James E. Caldwell, Messenger | | 3,030 | 3,115 |
| Geraldine M. Venable, Cafeteria Helper | | 2,975 | 3,050 |

Approved unanimously.

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Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in your letter of June 29, 1955, the Board approves the designation of Edward A. Rusin as a special assistant examiner for the Federal Reserve Bank of Chicago.

Approved unanimously.

Letter to The First National Bank of Mount Vernon, Mount Vernon, New York, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The First National Bank of Mount Vernon is now authorized to exercise will be forwarded to you in due course.

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

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the circumstances outlined in your letter of July 1, 1955, and the Reserve Bank's favorable recommendation, the Board of Governors extends until December 31, 1955, the time within which The Commercial Bank and Savings Company, Fostoria, Ohio, may establish a branch at 210-212 Perry Street, Fostoria, Ohio.

Approved unanimously.

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Letter to the Board of Directors, Wachovia Bank and Trust Company, Winston-Salem, North Carolina, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, with Peoples Savings Bank & Trust Company, Wilmington, North Carolina, and approves the establishment by the continuing bank of branches at the present locations of Peoples Savings Bank & Trust Company at 101 North Front Street, and its in-town branch at 1616 Dawson Street, provided (a) the merger is carried out substantially in accordance with the merger agreement between the parties, a copy of which was submitted to the Reserve Bank; (b) formal approval of the State authorities is obtained; and (c) the merger and establishment of the branches are effected within six months of the date of this letter.

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

Letter to the Board of Directors, Merchants and Planters Bank, Norfolk, Virginia, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch on the south side of Little Creek Road, midway between the intersection of Sewell's Point Road and Merritt Street, Norfolk, Virginia, by Merchants and Planters Bank, Norfolk, Virginia, provided the branch is established within one year from the date of this letter.

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

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to your letter of June 29, 1955, regarding the request of the Trenton State Bank, Trenton,

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Michigan, for an extension of time within which to establish a branch at 8464 Macomb Road, Grosse Ile, Michigan, due to a delay encountered in the installation of vault equipment and other fixtures.

After consideration of the information submitted and your favorable recommendation, the Board extends to September 14, 1955, the time within which the Trenton State Bank may establish the above branch which was originally approved in the Board's letter of February 28, 1955.

Approved unanimously.

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

Referring to your letter of July 1, 1955, it is noted the new building program of the Dupo State Savings Bank, Dupo, Illinois, is now estimated to involve a total expenditure of \$91,229 and that of this amount \$81,479 will be allocated to the bank premises account rather than \$64,845 as anticipated at the time the Board of Governors approved an investment of not to exceed \$65,000 in new bank premises by that institution. You state the current figure includes \$8,250 for the acquisition of a parking lot and that the bank hopes to sell a residence thereon for removal to another location for about \$4,250, which amount will be used to write down the carrying value of bank premises.

In view of all the circumstances, the Board concurs in your recommendation and now approves an investment of not to exceed \$82,000 by the Dupo State Savings Bank in its proposed new banking premises. It is understood any proceeds derived from the sale of parking lot improvements will be used to write down the carrying value of banking premises and that you expect the bank to continue its practice of conserving most of its earnings and to institute a satisfactory program for depreciating fixed assets. This letter supersedes the Board's letter of April 14, 1955. Please advise the bank accordingly.

Approved unanimously.

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

As recommended in your letter of June 20, 1955, the Board of Governors, under the provisions of Section 24A of

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the Federal Reserve Act, approves an additional investment in bank premises not to exceed \$111,648.59 by the San Benito Bank and Trust Company, San Benito, Texas.

Approved unanimously.

Letter to Lt. General Willard S. Paul, Assistant to the Director for Plans and Readiness, Office of Defense Mobilization, Washington, D. C., reading as follows:

In response to your circular letter of July 1, 1955, to the Heads of Key Mobilization Departments and Agencies, the Board believes that it is not necessary to submit any special recommendations concerning continued activation of its relocation site on a standby basis. The Board's relocation center, as you know, is located at the Federal Reserve Bank of Richmond and its facilities and personnel, together with adequate space, etc., are continuously available to the Board. In addition, essential records maintained there for the Board's use are kept reasonably current and, depending on the type of record, are supplemented semiannually, quarterly, monthly, or even daily. Therefore, the Board considers that it is operationally ready at all times for an emergency, in keeping with the stress placed on this aspect of defense planning during Operation Alert.

Approved unanimously.

The following draft of telegram to Mr. Treiber, First Vice President, Federal Reserve Bank of New York, which had been circulated to the members of the Board, was presented for consideration:

Reurlet June 28, 1955, Board approves acceptance of low bid of \$3,666,298 for construction of new building for Buffalo Branch, as recommended by the Building Committees of the Bank and the Branch. Board authorizes expenditure of approximately \$4,325,000 for this program, which includes the items covered in the tabulation attached to your letter and allowance of approximately five per cent for contingencies, as suggested by the architects and Directors' Committee.

Following a discussion based on comments by Mr. Leonard, the telegram was approved unanimously.

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Governor Vardaman said that in his opinion it reflected credit on the Federal Reserve Banks and on the Board's Division of Bank Operations that the cost of Federal Reserve Bank and branch building programs had been held so closely in line with the original estimates, some of which were made several years previously. The other members of the Board expressed agreement with Governor Vardaman's statement.

Reference then was made to the following draft of letter for the signature of Chairman Martin to the Honorable George M. Humphrey, Secretary of the Treasury, Washington, D. C., which had been circulated to the members of the Board prior to this meeting:

Our participation in the recent Operation Alert 1955 raises two important questions regarding provisions made for emergency supplies of currency: (1) Whether the supplies are sufficiently decentralized, and (2) the adequacy of the reserve supplies of \$1 bills.

The latest figures available at the time of the test showed total supplies of paper currency, both issued and unissued, held by the Treasury and the Federal Reserve Banks to be approximately \$21 billion. Of this, approximately 80 per cent was held by the Treasury in Washington and by the 18 Federal Reserve Banks and Branches in the cities assumed to be bombed in the test.

I think this demonstrates a drastic need for a greater decentralization of reserve supplies than is possible with present facilities. It appears to us that the most effective plan would be one that we have discussed on previous occasions; that is, to arrange for the construction at a small number of inland military posts of suitable vaults where reserve supplies of currency, and possibly Government securities as well, would be held under the control of the Treasury. I hope that in the light of the experience of Operation Alert such a program can be made effective. We at the Board would be glad to be of assistance in working to that end.

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The assumed destruction under the test would have left about a six-months' supply of currency in the denominations of \$5 and upwards; on the other hand, it would have left less than a three months' supply of \$1 bills.

Inasmuch as currency is supplied to the public through the Federal Reserve Banks and the demand for \$1 bills, as well as other denominations, falls upon the Reserve Banks, I venture to raise the question whether the present supplies of \$1 bills can be considered adequate.

In a discussion of the matter, the question was raised as to whether it was advisable to suggest the storage of reserve currency supplies in vaults at military facilities rather than at such places as the vaults of financial institutions. Governor Robertson said that this point had been considered carefully and that, taking into account the cost and protective factors, the use of military installations seemed to represent the most feasible solution. He also said that the program would envisage the use of not more than four or five military posts and that under the arrangement contemplated, the currency vaults would be under the supervision of appropriate civilian personnel. It was his opinion that if the program should be undertaken, the Federal Reserve System probably would be called upon to pay for the erection of the necessary vaults.

At the conclusion of the discussion, the letter to the Secretary of the Treasury was approved unanimously.

Governor Robertson said that a proposed Defense Mobilization Order relating to matters coming within the scope of the Treasury and the Federal Reserve System in connection with the post-attack functioning and rehabilitation of the banking system had now been received from the Office of

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Defense Mobilization and that after it had been reviewed and revised, it would be submitted to the Board for consideration.

At the meeting of the Board on July 11, 1955, consideration was given to a request of the California Bank, Los Angeles, California, for permission to establish a branch in Fullerton, California. It was agreed unanimously that the request should not be approved, and a letter to the Board of Directors of the California Bank was drafted to carry out the views expressed by the Board. Copies of the draft were sent to the members of the Board prior to this meeting.

At the request of the Chairman, Mr. Vest made a statement in which he brought out that the Administrative Procedure Act calls for a statement of procedural or other grounds for denial when an application is denied by a Government agency. He remarked that the draft of letter to the California Bank did not refer to an overbanked situation or destructive competition and, in fact, gave no affirmative reason why granting the application would not be in the public interest, and that there would appear to be some question as to the legal sufficiency of the statement, standing by itself, that there was no apparent need for additional banking facilities in the area at the present time. Mr. Vest said that although the possibility of litigation was rather remote, the Board's position might not be sustained should the matter be taken to court.

Governor Robertson said that the problem presented by the Legal Division was not a new one, that the question had come up on numerous

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occasions when he was with the Office of the Comptroller of the Currency, that in the Fullerton case there was a tendency toward an overbanked situation, and that in his view it was a proper function of bank supervision to take preventive steps rather than wait and have to consider corrective measures. In the circumstances, he felt that the phrasing of the proposed letter to the California Bank was appropriate and adequate.

Chairman Martin expressed the view that it was desirable to have the point raised by the Legal Division brought to the Board's attention because it went to the heart of the problem of bank supervision. He felt that if it was not within the province of the bank supervisory authorities to make this kind of judgment, it would be difficult to carry out a supervisory policy other than one of granting requests for new banking facilities on a perfunctory basis, since it is hardly possible to say precisely at what time an overbanked condition develops.

There was a further discussion of the matter on the basis of the banking situation in Fullerton, the reasons why the Board decided at the meeting on July 11 to deny the application of the California Bank, and the relationship of an adverse decision in such circumstances to bank supervisory policy. It was the consensus that the decision reached by the Board was justified, but that the Board's letter might be amended in minor respects.

Accordingly, unanimous approval was given to a letter to the Board of Directors of California Bank in the following form, for transmittal through the Federal Reserve Bank of San Francisco:

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Reference is made to your application, submitted through the Federal Reserve Bank of San Francisco, for permission to establish a branch in Fullerton, California.

The Board of Governors has given consideration to all available information and has concluded that it would not be justified in approving the application. This decision is principally based upon the facts that the immediate area in which it is proposed to establish the branch is now served by existing branches; that another bank will open, or has opened, a new branch within one block of the facilities now in existence; and that these branches are in a position to supply the community with adequate banking services. In these circumstances, it is the judgment of the Board that there is no apparent need for additional banking facilities in the area at the present time.

At the joint meeting of the Board with the Presidents of the Federal Reserve Banks on June 22, 1955, reference was made to the unanimous agreement of the Presidents' Conference that all Reserve Banks currently absorbing shipping charges on cash shipments to or from nonmember banks should initiate action by September 1, 1955, to terminate such arrangements. At that time it was pointed out that some of the Reserve banks had in effect agreements with nonmember banks pursuant to which such banks remit for checks at par in return for the Reserve Bank absorbing the cost of currency shipments made in payment for cash letters, and that the termination of such agreements might cause some of the nonmember banks to go off the par list. Later, some of the Reserve Bank Presidents informed Governor Robertson that they would like to have an expression of the Board's views on the matter.

Governor Robertson and Mr. Leonard commented on the matter and the former suggested that a letter be sent to the Presidents of all Federal

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Reserve Banks indicating that the Board was in agreement with the action taken by the Presidents' Conference.

In a discussion of the matter, it was the consensus that uniformity of practice throughout the System was desirable and that the Board should not interpose objection to the decision reached by unanimous vote of the Presidents' Conference.

In a further statement, Governor Robertson said that consideration was being given by the Board's staff to other areas where the recent study by the Presidents' Conference disclosed lack of uniformity in currency and coin services, and that these matters would be presented to the Board for consideration as soon as possible.

Thereupon, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks in the following form:

Among the topics discussed at the Joint Meeting of the Presidents and the Board of Governors on June 22, 1955, was the lack of uniformity among Reserve Banks with respect to currency and coin services.

In the case of the absorption of shipping charges on cash shipments to or from nonmember banks, it was agreed that all Reserve Banks currently following this practice would, by September 1, 1955, initiate action to terminate such arrangements. The Board is in complete agreement with the action taken by the Presidents.

The Board is giving consideration to certain of the variations in currency and coin services in which it has a particular interest.

Messrs. Leonard and Myrick then withdrew from the meeting.

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On June 27, 1955, Chairman Martin testified before the Securities Subcommittee of the Senate Banking and Currency Committee regarding S. 2054, a bill which would extend to large corporations whose securities are not registered on an exchange certain provisions of the Securities Exchange Act of 1934 designed for the protection of investors. The bill would exempt banks from these provisions, and during the course of the hearing Chairman Martin was asked to submit a memorandum dealing with this phase of the problem. Accordingly, Mr. Solomon had prepared a draft of memorandum and copies thereof had been sent to the members of the Board in advance of this meeting. The memorandum, which dealt with the specialized nature of banks and the extent of their regulation and supervision, suggested that the protection of bank stockholders be covered by amendments to the existing banking laws, if thought necessary, rather than by legislation such as would be provided in S. 2054.

The draft was discussed in the light of the request made of Chairman Martin and there was agreement that the general approach was appropriate. Although it was felt that the memorandum did not present an entirely persuasive case for the exemption of banking institutions from requirements similar to those contained in the proposed legislation, it was the view of the Board that, as suggested in the memorandum, any such requirements preferably should be included in the banking laws.

At the conclusion of a further discussion during which a number of changes were made in the draft, the memorandum

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was referred to Mr. Solomon for revision on the basis of the suggestions agreed upon at this meeting, with the understanding that the revised memorandum would be sent to the Senate subcommittee this afternoon.

Secretary's Note: In accordance with the foregoing action, the memorandum, having been appropriately revised, was sent to the Securities Subcommittee under date of July 14, 1955.

Mr. Vest reported that staff members of the Subcommittee on Welfare and Pension Funds of the Senate Committee on Labor and Public Welfare visited the Federal Reserve Building yesterday for discussion with the Board's staff regarding policies and practices with respect to the operation of employee welfare and pension plans and funds. While no legislation was pending before the Subcommittee, it was anticipated that hearings would be held on July 19 or 20 and the Subcommittee staff members wished to obtain such information as they could regarding investment policies of such pension plans. Their questions related to the Board's knowledge of pension trusts administered by banks and they asked no questions about other types of trusts. At the conclusion of the discussion, they indicated that a letter would be written to the Board, probably under today's date, asking that a representative of the Board testify at the hearings next week and submit a statement containing such information as the Board could provide on the subject. Other Government agencies also were to be requested to testify. Following a discussion of the matter, Chairman Martin suggested

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that Governor Balderston appear on behalf of the Board at the hearings and that a draft of the statement which he might present be prepared for consideration at the meeting of the Board tomorrow.

Chairman Martin's suggestion was approved unanimously.

Governor Robertson referred to his comments at the meeting of the Board on July 11 with regard to proposed changes in the national and State member bank examination report forms designed to give bank directors and the supervisory authorities a clearer picture of activities in the field of consumer credit. After stating that the new report pages were now ready, he said that this afternoon he would send copies to the other members of the Board, along with a draft of letter to the Federal Reserve Banks and a draft of letter to State member banks, with a view to further consideration of this subject at the meeting tomorrow in the hope that the letters to the Federal Reserve Banks could be sent tomorrow and the letters to the State member banks next Monday. He then read the draft of letter which would be sent to the State member banks and a draft of letter which the Comptroller of the Currency proposed to send to national banks. Governor Robertson anticipated that the proposed letter to State member banks would not be completely satisfactory to the Council of Economic Advisers since the members of that Council were understood to believe that the letters should express concern over certain developments in the area of consumer financing. He did not feel that such an expression would be appropriate in a letter of this kind from a bank supervisory agency.

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It was understood that the procedure proposed by Governor Robertson would be followed and that the Board would give further consideration to the matter at the meeting tomorrow.

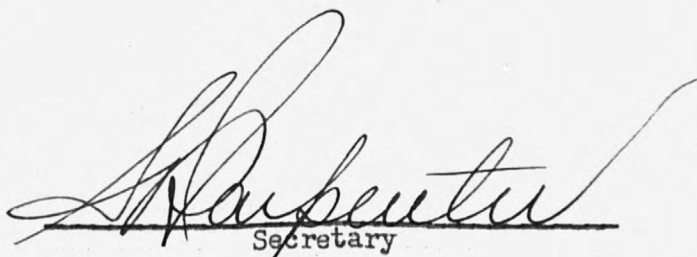
Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 12, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Mr. W. Purnell Hall, Jr., Executive Vice President, Maryland Shipbuilding and Drydock Company, Inc., Baltimore, Maryland, having indicated to the Chairman of the Federal Reserve Bank of Richmond that he would accept appointment as a director of the Baltimore Branch, the following telegram was sent to Mr. Hall today pursuant to the Board's action on July 7, 1955:

Board of Governors of Federal Reserve System has appointed you a director of Baltimore Branch of Federal Reserve Bank of Richmond for unexpired portion of term ending December 31, 1955. Your acceptance by collect telegram will be appreciated.

Understand you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of your appointment, please advise Chairman of Federal Reserve Bank of Richmond.


Secretary