

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 15, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Masters, Assistant Director, Division of Examinations
 Mr. Benner, Assistant Director, Division of Examinations
 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:

Letter to Mr. Earhart, President, Federal Reserve Bank of San Francisco, reading as follows:

Reference is made to your letter of May 18, 1955, advising of the plans for a central banking seminar to be held in San Francisco August 29, 30, and 31, and requesting the attendance of a member of the Board's staff. It now is contemplated that Mr. Winfield W. Riefler, Assistant to the Chairman, will be able to participate in the seminar for the period you indicated.

It will be appreciated if you will keep the Board informed as the program develops, and we will be glad to provide any assistance we can.

Approved unanimously.

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Letter to Mr. Charles G. Young, Jr., Vice President and Trust Officer, City National Bank & Trust Company, Kansas City, Missouri, reading as follows:

This refers to your letter of June 14, 1955, with respect to the recent amendment to section 10(c) of Regulation F. You refer to pension and profit sharing trusts "which authorize investment of the funds of the trust in any investment deemed desirable including, by way of illustration and not of limitation, shares of investment trusts" and shares or units of participation in any common trust fund maintained and operated by your bank as trustee. In other sections these trusts confer upon an investment committee the power and authority to supervise the trustee in the investment function and, if the committee deems it desirable, to direct the trustee regarding any such actions, the trustee being required to follow such directions.

The trust instrument apparently confers discretionary investment power upon the investment committee and imposes the requirement that the trustee follow all such directions which do not exceed the investment powers specifically enumerated in the trust instrument.

Regardless of this complete discretion conferred upon the investment committee, its direction that the trustee invest all or some part of the funds of the trust in a collective fund of the type permitted by section 10(c) would not enable the national bank to do so unless the trust instrument specifically authorizes the investment of such funds in this manner.

The reason for this is that there is no indication in the trust instrument that the settlor corporation, when it established the trust, had in mind the possibility that the funds of the trust might be commingled with the funds of other trusts unless it were done by means of participation in a common trust fund regulated by the Board or in shares of an investment trust which may be viewed as a single entity.

The answer to your question does not depend upon who has the investment authority, but upon whether the settlor had in mind the type of investment now permitted by section 10(c) when it established the trust. The trusts described

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in your letter apparently do not meet the qualifications prescribed by the Board.

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

Letter to City National Bank of Beverly Hills, Beverly Hills, California, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or 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 California, the exercise of all such rights to 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 City National Bank of Beverly Hills is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of San Francisco,
with a letter to Vice President
Millard containing the following
paragraph:

Although the national bank applied for permission to act as "transfer agent" and as "guardian of estates of lunatics", these powers are not included by specific reference in the permission granted by the Board as it is the Board's policy to grant permission to exercise trust powers only in the specific terms of section 11(k) of the Federal Reserve Act. However, the authority contained in the ninth or general power will enable the national bank to act in the aforementioned capacities if competing State banks are authorized so to act under applicable State law. It is suggested that you so advise the national bank.

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Reference was made to a memorandum from Mr. Thurston dated July 14, 1955, requesting that Mr. Fauver, Special Assistant to the Board, be authorized to travel to Cleveland, Ohio, during the period July 20-22, 1955, to attend a meeting of a Subcommittee of the System Research Advisory Committee's Committee on Education and Publications and to discuss the public relations activities of the Cleveland Reserve Bank with officials of that Bank.

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change, on the dates indicated, of the rates of discount and purchase in their existing schedules:

St. Louis	July 11 and 14
Kansas City	July 12
New York	July 14
Cleveland	July 14
Richmond	July 14
Chicago	July 14
Minneapolis	July 14
Dallas	July 14

Approved unanimously.

At this point Messrs. Vest, General Counsel, and Hexter, Assistant General Counsel, entered the room.

Pursuant to the understanding at the meeting yesterday, Governor Robertson subsequently sent to each member of the Board copies of (1) new pages of the report of examination of State member banks relating to consumer instalment loans, (2) a proposed letter to the Presidents of all

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Federal Reserve Banks, (3) a proposed letter to all State member banks, and (4) a copy of the latest draft that he had received of the letter to be sent to all national banks by the Comptroller of the Currency concerning a similar addition to the examination report forms used by national bank examiners.

At this meeting consideration was given to a revised draft of letter to State member banks suggested by Governor Balderston and to various other suggestions for changes in the letter to State member banks and the letter to the Federal Reserve Banks. During the discussion Governor Robertson read the final draft of the letter which the Comptroller of the Currency was to send to national banks under date of July 18, 1955. In the interest of proper coordination, he felt that the letter to State member banks should be mailed, if possible, on the same day.

It was suggested that as a matter of administrative procedure and in view of the relationships between the Federal Reserve Banks and State member banks in the respective districts, the letters to the State member banks be sent to the Reserve Banks for transmittal to the member banks in their respective districts. Governor Robertson said that he would have no objection to such procedure, provided the letters could be sent to the State member banks promptly.

At the conclusion of the discussion, unanimous approval was given to letters in the following form:

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Letter to the Presidents of all Federal Reserve Banks

In a letter of June 27, 1955, there was forwarded to the Vice Presidents in charge of examinations at Federal Reserve Banks for their consideration a new report section and check-list guide for the examination of consumer instalment loans in member State banks. As was noted in the letter, this material was prepared by the committee for the revision of the examination report in response to the Board's view that the expansion of consumer loans in banks and the growing liberality of terms deserve the most careful attention of examiners and supervisory authorities. Members of the committee have conferred with representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. We have been informed that the former will introduce in the reports of examination of national banks a report section on consumer loans similar to the new report section contemplated for use by Reserve Bank examiners. The Federal Deposit Insurance Corporation is giving consideration to the new form and quite recently introduced a special section on consumer loans in its examiners' manual.

In their replies to the Board's recent letter enclosing copies of the proposed new report section, the Reserve Banks generally have indicated strong support for its use, and improvements suggested by them have been incorporated in the completed version of the report section. The new examination forms comprise a page of questions numbered 10(a), one and one-half pages of schedules numbered 10(b) and 10(c), and a check-list guide to be used as an examiner's working paper. Copies of each of these documents are enclosed. It should be possible to send you the usual supply of printed forms within a week, and it is hoped that their use will begin as soon after receipt as is convenient.

It is contemplated that the new forms will be used in the examination of consumer instalment and floor plan loans only. Other kinds of instalment loans such as term loans, heavy machinery and equipment loans, etc., will not be covered in the new schedules, although if considered desirable they may be included in supporting schedules to be added by the examiner. The forms are for use in all banks having organized consumer instalment loan departments. It is also intended that they will be used in all member banks that do a significant amount of consumer lending. It is, of course, expected that the new section

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will be used in all banks experiencing unusual difficulties in the administration of consumer loans. In connection with these considerations, it is suggested that it may ordinarily be unnecessary to use the special forms in the case of banks having total loans of \$3 million or less, or in banks having larger loan totals where the total of consumer instalment loans and floor plan loans is less than \$1 million.

It is the usual practice of examiners to place the schedule showing the composition of a member bank's loans on a page designated 10(1) and a list of credit exceptions on a page numbered 10(2), etc. This practice should be continued with the new consumer loan section immediately following the above numbered pages. Consumer loans which are classified or specially mentioned may be placed in the usual sequence in the respective sections of the report, or segregated at the end of those sections if desired.

It is recognized that initially some difficulty may be experienced by examiners in the use of the new forms, and that future changes may prove to be desirable as experience is accumulated. It is our suggestion that the check-list guide be employed as a formal working paper for a period sufficiently long to familiarize the examiners and assistant examiners with the procedures indicated.

There is also enclosed a copy of a letter from the Board to all State member banks informing them of the introduction of the new consumer loan section in reports of examination and its purpose. A supply of the letter will be placed in the mails to you today and it will be appreciated if you will forward a copy to each State member bank in your district as soon as the supply reaches you. A copy of the letter being addressed to all national banks by the Comptroller of the Currency is also enclosed for your information. Inasmuch as the Comptroller's letter will be sent to national banks on July 18, it will be helpful if the Board's letter can be mailed by your Bank on that day if possible.

Letter dated July 15, 1955, to all State member banks

In recognition of the increasing importance of consumer loans in banks, the Board of Governors of the Federal Reserve System and the Comptroller of the Currency have prepared for the use of their examiners new examination report sections

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covering consumer loans. The new sections will become a regular part of reports of examination of national banks and State member banks that do a significant amount of consumer lending.

Consumer loans, comprising personal loans, repair and modernization loans, automobile loans, appliance loans and other consumer goods loans, made by all commercial banks have increased from less than \$1.5 billion in 1940 to more than \$9 billion in 1955. This expansion has been a factor in industrial and commercial development and a service to the banks' communities and the nation. Because of their increased importance in loan portfolios, these loans deserve special attention both by directors and managements of banks and by bank examiners and supervisors.

The new report sections to be used by the two Federal supervisory agencies will include questions relating to policies and practices in the administration of consumer loan departments, and schedules disclosing their condition. These questions and schedules will formalize the usual examination of a bank's consumer loan activities and should promote a desirable consistency in approach and coverage.

The purpose of this letter is simply to inform you about this new means of covering the field of consumer credit in reports of future examinations.

Mr. Thurston then withdrew from the meeting.

Pursuant to the understanding at the meeting of the Board yesterday, there had been prepared a draft of statement for presentation by Vice Chairman Balderston before the Subcommittee on Welfare and Pension Funds of the Senate Committee on Labor and Public Welfare on July 19, 1955. The draft outlined the functions of the Board of Governors relating to the administration of employee welfare and pension plans and funds, and pointed out that the Board's contact with such plans and funds was limited to the

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extent of its supervisory and regulatory duties with respect to member banks of the Federal Reserve System acting as trustees of welfare and pension trusts. The draft also presented certain factual data with regard to bank administration of pension trusts, investment policies of trustee banks, and examination procedure with respect to pension trust administration.

While there was agreement with the general form of the draft, a number of suggestions were made for changes of various kinds. At the conclusion of the discussion, it was understood that a revised draft would be prepared on the basis of the comments at this meeting for consideration by the Board on Monday, July 18.

In this connection, Mr. Vest said that no letter had yet been received from the Senate Subcommittee to formalize the request for testimony, that the verbal request made by members of the Subcommittee staff was in rather vague terms, and that the letter, if received, might present reasons for changes in the statement to be made by Governor Balderston. It was understood that if such a letter should be received, the staff would prepare the revised draft of statement in the light of any further information contained in the letter.

Mr. Cherry reported that the Congressional Joint Subcommittee on Economic Statistics, headed by Representative Bolling, would hold a hearing on Tuesday, July 19, regarding statistics having to do with

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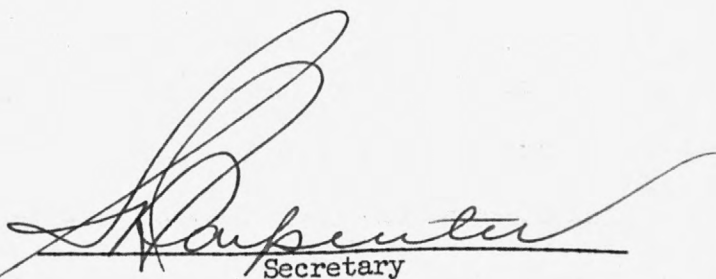
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plant and equipment expenditure expectations, and a hearing on Tuesday, July 26, with regard to savings statistics. These hearings would take the form of panel discussions and would be based on the reports submitted by the consultant groups appointed by the Board. While it was not anticipated that the Subcommittee would ask that a member of the Board testify or otherwise participate in the hearings, Mr. Young had been invited to serve as a member of the panel on both days.

Mr. Young was authorized to participate in the hearings as a panel member.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 14, 1955, were approved unanimously.

The meeting then adjourned.



Secretary