

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 8, 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. Mills
 Mr. Robertson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Nelson, Assistant Director, Division of Examinations
 Mr. Horbett, Assistant Director, Division of Bank Operations

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 August 14, 1955:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Eugene C. Harrison, Clerk	<u>Legal</u>	\$3,755	\$3,840

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Salary increases, effective August 14, 1955 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Clayton Gehman, Chief, Business Condi- tions Section		\$12,150	\$12,420
Bessie M. McCrae, Clerk		3,345	3,430
<u>Bank Operations</u>			
Helen A. Bennett, Clerk-Stenographer		3,670	3,755
Raymond J. Collier, Technical Assistant		8,215	8,430
Harold F. Stone, Analyst		5,845	5,980
<u>Examinations</u>			
Gena E. Gander, Special Assistant Fed- eral Reserve Examiner		4,345	4,480
<u>Personnel Administration</u>			
Margaret C. Wolverton, Personnel Technician		5,710	5,845
<u>Administrative Services</u>			
Elizabeth L. Carmichael, Chief, Publications Section		7,035	7,250
Andrew Fassino, Assistant Foreman of Laborers		3,200	3,285
Bruce L. Rabbitt, Assistant Painter		3,695	3,780

Approved unanimously.

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Letter for the signature of the Chairman to The Honorable Arthur S. Flemming, Director, Office of Defense Mobilization, Washington, D. C., reading as follows:

I have your letter of July 27, indicating that you would like to continue the same representation on the Interagency Planning Group established on the recommendation of the Defense Mobilization Board for developing operational plans for Operation Alert 1955, to provide coordinated planning for future exercises. In accordance with your wishes, Mr. R. F. Leonard, Director of the Board's Division of Bank Operations, has again been designated to work with this Group and Mr. L. P. Bethea, Director of the Board's Division of Administrative Services, has been designated as alternate.

We have no suggestions at this time that would be helpful in establishing guide lines for the fall exercises or on conducting the "surprise alerts" to test individual agency operations.

Approved unanimously.

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

Reurlet July 28, 1955. Board approves designation of Robert J. Schoenhoff as a special assistant examiner for the Federal Reserve Bank of Dallas to assist in examinations of State member banks.

Approved unanimously.

Letter to the Board of Directors, First Bank and Trust Company, Madison, N. J., Madison, New Jersey, 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 First Bank and Trust Company, Madison, N. J., Madison, New Jersey, on the east side of Ridgedale Avenue between South Orange Avenue and Brooklake Road, Borough of Florham Park, New Jersey, provided the branch is established within one year from the date of this letter.

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

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Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the recommendation contained in your letter of July 27, 1955, the Board of Governors extends to November 29, 1955, the time within which the St. Bernard Bank & Trust Co., Arabi, Louisiana, may establish a branch on St. Bernard Highway at Fazzio Road, Chalmette, Louisiana, under the approval given by the Board in its letter of March 4, 1955. Please advise the bank accordingly.

Approved unanimously.

Letter to The Knisely National Bank of Butler, Butler, Indiana, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee. The exercise of such authority, in addition to that heretofore granted to act as executor, administrator, and guardian of estates, 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 Knisely National Bank of Butler is now authorized to exercise will be forwarded to you in due course.

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

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

Reference is made to your letter of July 27, 1955, regarding the request of the American Trust Company, San Francisco, California, for an extension of time in which to establish a branch in the Hillsdale Shopping Center, San Mateo, California.

After considering the information submitted and your favorable recommendation, the Board of Governors extends to

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March 23, 1956, the time within which the American Trust Company may establish the above described branch.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated June 3, 1955, enclosing photostatic copies of an application to organize a national bank at Miami, Florida, under the title of Boulevard National Bank of Miami, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta discloses generally favorable findings with respect to the factors usually considered in connection with such proposals except that definite plans have not been made for an experienced banker to manage the institution and that an urgent need for the bank is not apparent although it would be an added convenience. It is reported that the organizers have agreed to increase the initial capital structure of the bank from \$650,000 to \$1,000,000. After considering all of these factors the Board of Governors recommends approval of the application provided arrangements are made for management satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated July 8, 1955, enclosing photostatic copies of an application to organize a national bank at Missoula, Montana, and requesting a recommendation as to whether or not the application should be approved.

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Information contained in a report of investigation of the application made by a representative of the Federal Reserve Bank of Minneapolis indicates generally satisfactory findings with respect to the factors usually considered in connection with such applications, except the adequacy of the capital structure. On the basis of the potential future deposits of the institution, our informant suggests that a minimum capital structure of at least \$200,000 be required instead of \$140,000 as proposed by the applicants. The Board of Governors recommends approval of the application provided arrangements are made for a capital structure satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum dated August 4, 1955, from Messrs. Wood, Economist, Division of Research and Statistics, Young, Assistant Counsel, and Chase, Assistant General Counsel, relating to a request from the Bureau of the Budget for comments on an enrolled enactment of the bill S. 2126, entitled "Housing Amendments of 1955". The memorandum outlined various provisions of the bill and pointed out that four provisions of a draft bill bearing the same title, to which the Board objected in a letter to the Bureau of the Budget earlier this year, were omitted from S. 2126 as passed by the Congress. With the memorandum was submitted a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

Receipt is acknowledged of your communication dated August 3, 1955 requesting the comments of this Board on the bill entitled "Housing Amendments of 1955" (S. 2126).

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You will recall that in response to your request the Board, on March 17, 1955, gave you its comments on an earlier draft of this bill. The provisions to which the Board objected were eliminated, and the Board has no comments to offer with respect to the bill at this time.

The letter was approved
unanimously.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum dated August 4, 1955, from Mr. Hexter, Assistant General Counsel, regarding a request from the Bureau of the Budget for comments on enrolled bill S. 1189, "An Act to permit national banks to make twenty-year real estate loans, and nine-month residential construction loans". The memorandum pointed out that in a letter of April 25, 1955, to the Senate Banking and Currency Committee, the Board expressed a favorable opinion on S. 1189 as introduced; and that, as passed by the Congress, the bill had been changed substantively only to the extent that it would permit national banks to make ten-year and twenty-year amortization mortgage loans in an amount up to $66\frac{2}{3}$ per cent of the appraised value of the real estate security, instead of the maximum of 60 per cent prescribed in the bill as introduced. Since the Comptroller of the Currency was reported to have no objection to the change, many State banks are permitted to make such loans up to $66\frac{2}{3}$ per cent of appraised value, and the Board's Division of Examinations believed the higher figure would not result in the making of unsafe or unsound real estate loans to any material extent, the memorandum recommended that the following letter be

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sent to Mr. Roger W. Jones, Assistant Director, Legislative Reference,
Bureau of the Budget:

This is in response to your communication of August 3, 1955, enclosing a facsimile of the enrolled bill S. 1189 (a bill "To permit national banks to make twenty-year real estate loans and nine-month residential construction loans") and requesting the comments of the Board of Governors thereon for presentation with the report of the Bureau to the President.

The views of the Board with respect to S. 1189, as introduced, were expressed in a letter dated April 25, 1955, to the Senate Committee on Banking and Currency, a copy of which is enclosed. The only substantive difference between the enrolled bill and the bill as introduced is that the enrolled bill authorizes amortization real estate loans in amounts up to $66\frac{2}{3}$ per cent of the appraised value of the real estate security, in lieu of a 60 per cent maximum.

The Board of Governors has no objection to approval of the enrolled bill S. 1189.

The letter was approved
unanimously.

There had been circulated to the members of the Board a draft of letter for the signature of the Chairman to The Honorable Rowland R. Hughes, Director of the Bureau of the Budget, concerning the Board's review of Part II of the Report on Paperwork Management submitted to the Congress by the Commission on Organization of the Executive Branch of the Government. When the file was in circulation, Governor Balderston suggested that the letter be shortened to read as follows:

The Board has now reviewed Part II of the Report of the Hoover Commission on Paperwork Management submitted to the Congress by the Commission on Organization of the Executive Branch of the Government.

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While the work of the task force was under way, one of the members of the task force staff met with members of the Board's staff and recommendations which had been made by the Industry Committee on Banking with respect to reports made by banks were thoroughly reviewed. Because of the short time before the Commission went out of existence, it was not possible to resolve all the questions raised by the recommendations.

The report of the Commission recommends that the President direct the Bureau of the Budget, together with its Advisory Council on Federal Reports and in cooperation with the General Services Administration, to give increased emphasis in their reports program to the need to protect the public from unnecessary reporting burdens by continuing the method of cooperation between industry and Government pursued by the task force as outlined in the Commission report. The Board of Governors will be glad to cooperate in such a program.

The letter was approved
unanimously in the form sug-
gested by Governor Balderston.

The following draft of letter for the signature of the Chairman to The Honorable Rowland R. Hughes, Director of the Bureau of the Budget, had been circulated to the members of the Board prior to this meeting:

In accordance with the request contained in your letter of March 4, 1955, the Board has commented on the following reports submitted by the Commission on Organization of the Executive Branch of the Government:

Personnel and Civil Service
Paper Work Management, Parts I and II
Federal Medical Services
Lending Agencies
Transportation
Legal Services and Procedure
Surplus Property

The Board has also reviewed the recommendations in the following reports; it does not appear that the recommendations

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contained therein would affect our operations in any material way and therefore the Board does not have any comments to make:

Final Report
Food and Clothing
Business Enterprises
Depot Utilization
Research and Development
Overseas Economic Operations
Real Property Management
Budget and Accounting
Business Organization, Department
of Defense
Water Resources and Power

It may be noted that pursuant to the provisions of section 10 of the Federal Reserve Act, funds used for the construction of the building now occupied by the Board of Governors were derived from assessments levied on the Federal Reserve Banks, and funds for maintaining the building are provided in the same manner. Also the law provides that the Board may maintain, enlarge or remodel the building and shall have sole control of the building and space therein. In view of Recommendation No. 7 of the Commission's Report on Real Property Management, which provides for a single appropriation for the operation of all general purpose public buildings, it seems clear that the Real Property Report is directed at agencies in the executive branch of the Government which operate on appropriated funds and, consequently, is not intended to apply to agencies such as the Board. In any event, for reasons which prompted the enactment of the provision of section 10 of the Federal Reserve Act above referred to, the Board does not believe that any change should be made in the law affecting the control of the Board's present building and the space therein.

Reference might be made to one other point. One of the recommendations in the report on Business Enterprises is that the Postal Savings System be discontinued. On March 26, 1953, in a letter to the Bureau of the Budget the Board expressed its views concerning S. 573, a bill to discontinue the Postal Savings System. A copy of that letter is enclosed.

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It is understood from your letter of July 13 that the request for comments on the report on Intelligence Activities of the Government has been withdrawn.

The letter was approved unanimously.

Mr. Horbett then withdrew from the meeting.

There had been circulated to the members of the Board a draft of letter to Mr. Young, Chairman, Conference of Presidents of the Federal Reserve Banks, reading as follows:

At the Joint Meeting of the Presidents with the Board June 22, 1955, Mr. Earhart, Chairman of the Committee on Miscellaneous Operations, reported a fundamental difference of opinion among the Reserve Banks regarding the provision of wrapped coin service by them. This is emphasized in the following paragraphs of the Report of the Committee on Miscellaneous Operations dated June 20, 1955:

"Wrapped Coin Service

"Judging from the replies of the Federal Reserve Banks to the Subcommittee questionnaire, the banks may not be able to agree on the extent to which a wrapped coin service should be furnished, if at all. The majority of the Reserve Banks provide wrapped coin, charging the member bank with the cost of wrapping. This was undertaken in response to the request of member banks for such service, which became more and more insistent as one Reserve Bank after another provided wrapped coin.

"On the other hand, some Reserve Banks do not furnish wrapped coin because they consider that it results in an economic waste through the added movement of coin in and out of the Federal Reserve Bank. Other Reserve Banks are willing to furnish a limited amount of wrapped coin but consider that too large a concentration of wrapping is uneconomic and should not be permitted. Such limits have been arbitrarily placed. Some limitations might be induced by fairly high charges for the service. In this connection there is a question whether all costs incidental to wrapping are actually recovered under the present cost formula.

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"Probably no further study or report will change the differing and firm views held on this often debated subject, but if the Presidents' Conference should so desire, the pros and cons of the various arguments can be more specifically and fully presented."

The Board has serious reservations as to whether the furnishing of wrapped coin is an appropriate and desirable function for the Reserve Banks. Among the reasons for this doubt are that --

1. While the Reserve Banks are sources of supply for the country's needs for currency and coin, the wrapping of coin is essentially a retail operation that more properly might be left to commercial banks themselves or to commercial suppliers.
2. The furnishing of wrapped coin is inherently an uneconomic service. By its very nature it encourages increased shipments to and from the Reserve Banks and the rehandling of coin.
3. Limitations on the service may lead to charges of discrimination, but the supplying without limitation of all requests for wrapped coin could lead to unwarranted expense.
4. The supplying of coin by some Reserve Banks brings pressure on other Banks for similar service, although as a policy they are opposed to the practice.

There are, of course, arguments for the continuation, or even expansion, of the service, and undoubtedly there are additional arguments against the practice.

In all the circumstances and to focus discussion on the basic issue, the Board suggests that the Presidents' Conference, at its next meeting, consider the fundamental question of whether as a System policy wrapped coin service should not be discontinued.

Mr. Leonard said that the question of wrapped coin service was a controversial one, that it might not be possible to achieve unanimity of

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Reserve Bank opinion, but that it seemed desirable to solve the fundamental question, if possible, rather than to spend further time and effort in attempting to reconcile various differences in operating procedures. He went on to say that efforts were being made to have the practice extended, and that this pressure and other factors made it appropriate to consider at this stage what policy should be followed. He also said that expenses of the wrapped coin service were not fully disclosed by current accounting procedures, that nine Reserve Banks were furnishing wrapped coin in various degrees, and that the other Banks were under some pressure from member banks to adopt the practice.

Following a discussion, the letter to President Young was approved unanimously in the form submitted.

Mr. Leonard then withdrew from the meeting.

There had been circulated to the members of the Board a draft of letter to the Board of Directors, Fidelity Trust Company, Indianapolis, Indiana, reading as follows:

Reference is made to your application, submitted through the Federal Reserve Bank of Chicago, for permission to establish a branch at 5515 West Washington Street, Ben Davis, Indiana.

The Board of Governors has given consideration to all available information and has concluded that it would not be justified in approving this application. This decision is principally based upon the facts that a national bank has been granted permission to operate a branch in the immediate area, and this branch, together with facilities existing in the surrounding area, will provide the community with adequate banking service.

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The file included a memorandum dated July 27, 1955, from Mr. Hexter, Assistant General Counsel, questioning the sufficiency of the stated reason for denial of the application and suggesting the inclusion of affirmative reasons for disapproval, such as the bank's low capital structure and the doubtful prospects for profitable operation of both this branch and a nearby branch being established by another bank.

Mr. Nelson made a statement in which he brought out that before this application was filed, an application had been filed by a national bank for a branch about one-half mile from the proposed location, that the national bank application had now been approved, that the national bank had the bulk of the business in the neighborhood, and that one branch would appear sufficient to serve the area. He further stated that the Chicago Reserve Bank originally recommended approval, partly because Fidelity Trust Company appeared to have had some preliminary negotiations with the Indiana State banking authorities prior to the date the national bank's application was filed; but that the Reserve Bank conditioned its recommendation on a \$500,000 capital increase and subsequently advised by telephone that the trust company probably would not be willing to accept the condition. He pointed out that memoranda concerning this and other telephone conversations which he had with the Reserve Bank had been placed in the file covering the application.

In response to a question by Governor Vardaman as to whether the Board would be warranted in approving the application subject to the

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capital increase requirement, Governor Robertson said that on the basis of the facts in the record there was not a need for two branches in the area, that although the trust company might have discussed the matter of a branch with the State authorities, the national bank's application was filed first, and that in all the circumstances there seemed to be ample reason for disapproving the application aside from the trust company's capital position. He also expressed the opinion that to raise the question of capital at this point might militate against the chances of securing the bank's cooperation in a more extensive program for improvement of its capital structure.

Thereupon, the letter to the Fidelity Trust Company was approved unanimously in the form set forth above, for transmittal through the Federal Reserve Bank of Chicago.

Governor Robertson referred to the meeting with finance company representatives tomorrow to afford the Board information on instalment credit trends. He then distributed (1) a suggested agenda which would be distributed to the participants as a basis for discussion and (2) a background memorandum for the use of the Board members in preparing for the meeting.

It was agreed that the agenda should be used as a basis for discussion and that a similar agenda should be prepared for the meeting with commercial bank representatives on Thursday, August 11.

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 4, 1955, were approved unanimously.

The meeting then adjourned.

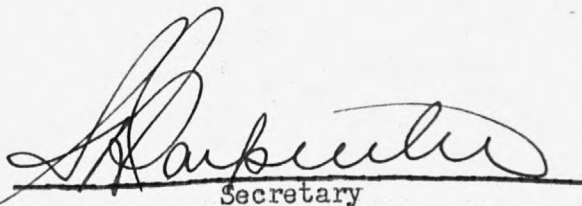
Secretary's Note: Pursuant to the action taken by the Board on August 3, 1955, the following telegrams were sent on August 5, 1955:

To Mr. Johns, President, Federal Reserve Bank of St. Louis

Reurtel today. Board approves effective August 8, 1955, rates of 2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 2-1/2 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to Press at 3:30 p.m. EDST today for immediate release.

To Mr. Mills, First Vice President, Federal Reserve Bank of Minneapolis

Reurtel August 4. Board approves effective August 6, 1955, rates of 2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 2-1/2 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being handed to Press at 3:30 p.m. EDST today for immediate release.


Secretary