

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 11, 1955. The Board met in the Board Room at 9:45 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. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Marget, Director, Division of International Finance
 Mr. Horbett, Associate Director, Division of Bank Operations
 Mr. Nelson, Assistant Director, Division of Examinations
 Mr. Hackley, Assistant General Counsel
 Mr. Masters, Assistant Director, Division of Examinations
 Mr. Benner, Assistant Director, Division of Examinations
 Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics

Under date of April 25, 1955, Mr. Sproul, President of the Federal Reserve Bank of New York, addressed a letter to the Board in which he raised questions concerning the relationships between the Federal Reserve System and the Bank for International Settlements. A request was made for the views of the Treasury Department and in a reply dated July 28,

8/11/55

-2-

1955, Mr. Burgess, Under Secretary of the Treasury, suggested various reasons why there would appear to be some advantage in continuing the present informal arrangements which have resulted in personnel of the Federal Reserve System, the Treasury Department, and the International Cooperation Administration being invited to attend meetings of the Bank for International Settlements as observers. In the light of the letter from Mr. Burgess, the following draft of reply to President Sproul had been circulated to the members of the Board prior to this meeting:

The Board of Governors has considered the issues raised by the suggestion, in your letter of April 25, 1955, that the Federal Reserve System may now want to consider again whether it should play a part as one of the central banks cooperating in the management of the Bank for International Settlements.

The view of the Board is that the System should not at this time seek or accept membership on the Board of the Bank for International Settlements. This does not preclude, of course, the establishment and maintenance of closer informal contact between the System and the Bank for International Settlements, with a view to keeping the System more fully informed regarding developments abroad that are likely to be of concern to it.

The Board is now considering the question of how this might be done without involving formal association of the System with the Bank for International Settlements, and would be pleased to have any suggestions that you may care to offer in this connection.

There had also been sent to the members of the Board copies of a memorandum from Mr. Marget dated May 2, 1955, submitting staff memoranda prepared in 1950 describing the functions and operations of the Bank for International Settlements and discussing the possibility of System

8/11/55

-3-

representation on the Board of the Bank. In addition, there had been sent to the members of the Board copies of a memorandum prepared by Mr. Marget under date of August 4, 1955, suggesting for consideration, in view of the letter from Mr. Burgess, several questions having to do with the System's relations with the Bank for International Settlements if it should be decided that such relations should be continued on an informal basis.

Following comments by Governor Szymczak, the letter to President Sproul was approved unanimously in the form set forth above and it was understood that further consideration would be given at another meeting of the Board to the questions raised in Mr. Marget's memorandum of August 4, 1955.

Mr. Marget then withdrew from the meeting.

Governor Robertson referred to a letter which he had received from Senator Robertson requesting comments concerning Bill S. 2577, known as the Bank Holding Company Act, including comparisons with H. R. 6227, the bank holding company bill passed by the House of Representatives, and S. 2350, the bill later introduced by Senator Robertson. He then read a proposed reply to Senator Robertson which would be sent over his own signature as an expression of personal opinion. He said that the reply was not intended to bind the Board in any respect but that he would like to ascertain whether the other members of the Board had any objection to it.

During the reading of the proposed reply to Senator Robertson, Chairman Martin was called from the room on other business.

8/11/55

-4-

After the reading of the letter had been completed, there was a general discussion of S. 2577 and one suggestion was made for a minor change in the last paragraph of Governor Robertson's letter to Senator Robertson. The members of the Board indicated that they saw no objection to the sending of the letter, particularly since the statements made in it were substantially in harmony with the views on bank holding company legislation previously expressed by the Board.

Mr. Hostrup then withdrew from the meeting.

There had been circulated to the members of the Board a draft of letter to the Presidents of all Federal Reserve Banks concerning a proposed annual survey of investments of common trust funds administered under subsection (c), section 17 of Regulation F, Trust Powers of National Banks.

Following comments by Mr. Horbett on the nature and objectives of the proposed survey, the letter, reading as follows, was approved unanimously with the understanding that it would be sent following clearance of the survey forms with the Bureau of the Budget:

The Board has approved an annual survey of investments of common trust funds administered under subsection (c), Section 17, of Regulation F, to begin this year. A supply of the questionnaire to be used (form F.R. 508) is being sent to you under separate cover; a copy is enclosed.

Primarily as the result of suggestions made by the Reserve Banks, a number of changes have been made in the draft of the questionnaire which was sent to you on February 28, 1955:

8/11/55

-5-

- (1) The reporting period has been changed to the twelve months ending on the valuation date nearest December 31, whether before or after December 31. This will center the reporting dates around the year-end and provide a built-in average to compensate for different reporting dates.
- (2) A further breakdown of Government securities by maturity has been provided.
- (3) The instructions have been expanded to clarify the procedure for reporting principal fund cash and savings deposits, and for classifying investments.
- (4) Respondents have been offered an alternative of listing individually any securities that they find too difficult to classify. Item V has been provided for the totals of individually listed securities.
- (5) A miscellaneous item has been added under Item II to provide for bonds, notes, and certificates not elsewhere classifiable.
- (6) Three memoranda items have also been added:
 - (a) Items 3 and 4 will make it possible to provide a balancing check on totals reported. The application of this balancing check is explained in the attached suggestions for editing.
 - (b) As you know, some corporate pension funds administered by banks have been placed in common trust funds. Data now being collected annually by the Securities and Exchange Commission on corporate pension funds do not provide for a breakdown of investments of corporate pension funds that have in turn been placed in common trust funds. Therefore, Item 5 has been provided to make it possible to avoid double counting when the statistics on common trust

8/11/55

-6-

funds are used as part of any analysis of savings and investments that requires the addition of these data to investments of corporate pension funds.

Since the data are to be collected beginning with the year 1955, the matter should be presented to administering banks by early October. As indicated in the Board's letter of February 28, the survey comprehends common trust funds administered by nonmember as well as member banks. Data need not be collected for funds that have not been in operation for a full twelve months.

It will be appreciated if you will arrange to have the reports edited and conduct any necessary correspondence to remove inconsistencies and discrepancies before forwarding them to the Board.

Reference was made to the following draft of letter to the Board of Directors, The City National Bank of Millville, Millville, New Jersey, which had been circulated to the members of the Board prior to this meeting:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers forwarded through the Federal Reserve Bank of Philadelphia.

Your bank has been in operation just three years, during which time a steady growth in assets has been realized and many, but not all, of the problems associated with a newly organized bank have been satisfactorily resolved. While earnings from banking operations have been generally favorable during the two past calendar years, unusual and beneficial arrangements for occupancy of your banking quarters were an influencing factor of importance. It is apparent that net earnings for the year 1955 will be affected by an increase of \$3,000 in rental expense and also by an estimated increase of \$9,000 in interest on savings deposits resulting from the recent rate change. As a consequence, retained earnings in the immediate future will likely be inadequate to fill the

8/11/55

-7-

need for additional capital funds prompted by an expanding volume of deposits and loans. Therefore, until the bank is on a sounder operating basis and until its commercial banking activities are more firmly in hand and are regarded as wholly satisfactory to bank supervisory authorities, it is believed unwise for you to enter the trust field and assume responsibilities which will enhance the hazard to your capital funds, will possibly present administrative problems of a complicating nature, and may add somewhat to operating expenses.

Furthermore, while Director Gant obviously has qualifications which would make his services to the bank as a member of its trust committee or as its legal counsel very valuable in the conduct of proposed trust business, it is seriously questioned, in view of his several other interests, that he would be in a position to give trust activities the close attention they require. Such close and effective direction by an experienced and qualified officer of the bank would appear essential in view of the lack of reasonable familiarity with trust administration by others among the bank's personnel.

In all the circumstances, it is the view of this Board that the requested authority to exercise trust powers should not be granted at this time.

Mr. Masters made a statement in which he discussed the applicant bank's history, management, and general condition and stated reasons why the Chief National Bank Examiner for the Third Federal Reserve District, the Federal Reserve Bank of Philadelphia, and the Board's Division of Examinations were of the opinion that the application should not be granted at this time. He pointed out particularly that the applicant bank was a relatively new institution, that the management had no special capabilities to handle trust business, and that there appeared to be no need for the service as far as the community was concerned. He said the bank's only

8/11/55

-8-

apparent reason for desiring to exercise trust powers was so that it would be able to offer the same services as another national bank located across the street.

Governor Robertson stated that he agreed completely with the recommendation in this case and that in his opinion the Board should lean in the direction of a somewhat more rigid policy with respect to the granting of fiduciary powers, particularly in the case of smaller banking institutions.

Following further discussion, the letter was approved unanimously in the form submitted, for transmittal through the Federal Reserve Bank of Philadelphia.

Mr. Masters then withdrew from the meeting and Mr. Shay, Assistant Counsel, entered the room.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to Mr. Hodge, General Counsel, Federal Reserve Bank of Chicago, reading as follows:

This is in further reference to your letter of July 14, 1955, concerning the status under Regulation Q of a promotional idea of the W. A. Sheaffer Pen Company, Fort Madison, Iowa.

Enclosed with your letter were copies of correspondence received by you from Mr. Robert O. Thomas, Legal Counsel to the Company, who asked whether the promotional idea, which is designed to increase the number of savings deposit accounts in banks, would involve any violation of the regulation by member banks that might adopt the idea. You indicated that the Company plans to promote the idea on a national scale.

8/11/55

-9-

From the information submitted by Mr. Thomas, it appears that any bank adopting the idea would offer, without charge, to any customer opening a savings deposit account in a specified minimum amount, some item or items of Sheaffer Fineline merchandise which could be purchased from the Company by the bank at a price substantially lower than the regular retail price. However, from such information it is not entirely clear what particular merchandise a given bank might offer, and Mr. Thomas states that it would be entirely up to the bank to determine the specified minimum deposit.

The regulation states that "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest," and provides that no member bank shall pay interest, directly or indirectly, on any savings deposit at a rate in excess of the maximum rate prescribed by the Board. Therefore, as you indicated, the question is whether, in a particular case, the cost to the member bank of the merchandise given the depositor should be regarded as an indirect payment of interest which should be considered, together with the regular rate of interest payable on the deposit, in determining whether the total interest on the deposit would exceed the maximum rate for savings deposits prescribed by the Board.

As you know, it has been the Board's general policy for many years not to pass upon questions of this kind prior to presentation of the specific matter following an examination of the particular bank, but rather to rely upon the cooperation and good faith of the member banks in adapting their practices to conform with the spirit and purpose of the law and regulation. However, even aside from the Board's general policy just referred to, the question here involved has not been presented on the basis of a specific practice or proposal of a particular member bank, nor has the question been presented by a member bank.

The Board appreciates the desire of the Company to know whether its promotional idea, if put in practice by member banks, would conflict in any way with the regulation. In all the circumstances, however, the Board does not believe that it should attempt a specific answer to the matter presented by Mr. Thomas' inquiry.

8/11/55

-10-

There had also been sent to the members of the Board copies of a memorandum prepared by Mr. Vest under date of August 8, 1955, in the light of comments received from the Federal Reserve Banks in response to the Board's memorandum dated May 3, 1955, which discussed certain alternative policies that might be followed by the Board in passing upon questions as to whether various practices constituted an indirect payment of interest on deposits under the law and the Board's Regulation Q, Payment of Interest on Deposits.

Since it developed that all of the members of the Board had not had an opportunity to study Mr. Vest's memorandum and its attachments it was agreed that the subject would receive further consideration by the Board at a later date. Regarding the draft of letter to Mr. Hodge, Mr. Vest said that if the Board was disposed to make a reply at this time, he felt that the letter which had been drafted would be an appropriate response and that it could appropriately be sent in advance of further discussion of the general question of indirect payment of interest on deposits, particularly because the question was raised by a commercial concern rather than by a member bank, the information submitted was not specific in all respects, and the letter was in line with the policy followed by the Board for a number of years.

At the conclusion of a discussion, the letter was approved unanimously, in the form submitted, with the understanding that a member of the Legal Division would

8/11/55

-11-

call Mr. Hodge on the telephone and discuss with him the handling of the matter in the light of the consideration being given to the general question of indirect payment of interest on deposits.

Messrs. Horbett, Benner, Hackley, and Shay then withdrew from the meeting.

In accordance with the understanding at yesterday's meeting of the Board, there was a further discussion of the response to be made to a letter dated July 15, 1955, in which Representative Patman inquired about short-selling in the Government securities market. The staff had prepared another draft of response combining various portions of two previous drafts and it was stated that the new draft reflected further staff consideration as well as comments received from the Federal Reserve Bank of New York. Copies of the revised draft were distributed at this meeting.

In addition, Governor Vardaman presented a draft reflecting various revisions in one of the drafts which had been submitted previously.

During a discussion of the matter, Chairman Martin returned to the meeting.

A number of suggestions were made as to the form which the response to Representative Patman should take in the light of information currently available and the feasibility of obtaining additional data which would be pertinent and accurate. No conclusions were reached and it was understood that there would be a further discussion at another meeting of the Board.

8/11/55

-12-

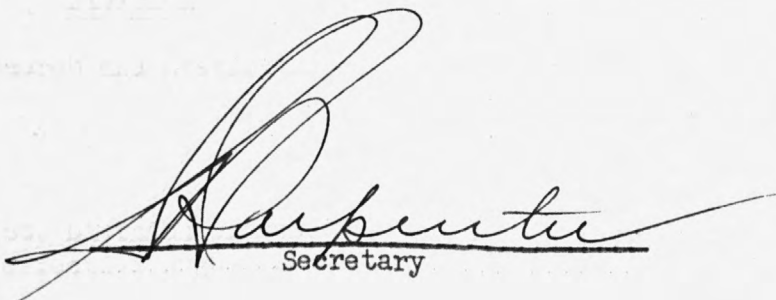
Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 10, 1955, were approved unanimously.

The Board then met informally with a group of commercial bankers for a discussion of instalment credit trends. A memorandum summarizing the discussion has been placed in the Board's files along with a memorandum summarizing the meeting with finance company representatives which was held on August 9, 1955.

The meeting then adjourned.

Secretary's Note: In accordance with the action taken by the Board on August 3, 1955, the following telegram was sent today to Mr. Leach, President of the Federal Reserve Bank of Richmond:

Reurtel today. Board approves effective August 12, 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 4:00 p.m. EDST today for immediate release.



Secretary