

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 17, 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. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 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. Hexter, Assistant General Counsel
 Mr. Koch, Assistant Director, Division of Research and Statistics
 Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics

Governor Szymczak reported that the Division of Bank Operations had been advised of a prospective visit to the Federal Reserve Bank of Philadelphia by members of the staff of the House Committee on Appropriations. It was understood that the Committee had requested its staff to make a review of public debt activities and that the current study was for the purpose of determining how various kinds of Government securities are processed by the Treasury and by the Federal Reserve Banks as fiscal agents. Governor Szymczak said that Mr. Leonard had informed President Leach, as Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, and that it would seem desirable to advise all of the Reserve Banks.

The matter was discussed and it was agreed that advice should be

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sent to all of the Federal Reserve Banks concerning the current study.

Secretary's Note: Pursuant to this action, the following letter was sent to the Presidents of all Federal Reserve Banks on August 19, 1955:

In a letter dated April 28, 1950, the Board informed the Presidents of the various Reserve Banks that it had been advised that the House Committee on Appropriations had requested the investigative staff of the Committee to make a study of fiscal agency operations performed by Federal Reserve Banks. It was indicated that the study was to determine whether there was any duplication between the work performed by the Reserve Banks and various Governmental agencies, and whether the services in question could be more economically and efficiently performed directly by the agencies themselves. Subsequently, Messrs. LaPadula and Bernstein of the Committee's staff made visits to certain Reserve Banks.

Advice has recently been received from the Treasury Department that the Committee on Appropriations has requested its staff to make a study of Public Debt activities. It is understood that the current study is for the purpose of determining how various kinds of Government securities are now being processed both by the Treasury and by the Federal Reserve Banks as Fiscal Agents. In this regard Messrs. LaPadula and McDonald of the Committee's staff are planning a visit to the Federal Reserve Bank of Philadelphia beginning Monday, August 22, but it is understood that no visits to other Reserve Banks are presently contemplated.

This matter has been discussed with President Leach, Chairman of the Committee on Fiscal Agency Operations. It will be appreciated if, in accordance with usual procedure, you will inform the Board of any visit that may be made to your Bank in this connection.

Mr. Riefler stated that in the light of previous discussions concerning the response that should be made to Representative Patman's inquiry of July 15, 1955, relating to short-selling in the Government securities

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market, a revised draft of letter had been prepared. He said that he had discussed that draft with all of the Reserve Bank Presidents currently serving on the Federal Open Market Committee and that in view of certain comments made by President Earhart, further revisions were made. Copies of the latest draft were then distributed, following which the proposed letter was discussed and suggestions were made for additional changes in language of a minor nature.

The draft, as revised to incorporate the further changes agreed upon at this meeting, was approved unanimously as to substance and was referred to Messrs. Thurston, Riefler, and Vest for final editing, with the understanding that it would be sent to Representative Patman over the signature of Chairman Martin when in a form satisfactory to Governor Vardaman.

Secretary's Note: In accordance with the foregoing action, the letter was sent under date of August 17, 1955, in the following form:

Your letter of July 15 asked to what extent the United States Government securities market may be characterized by short selling, what institutional procedures are involved in such sales, and the volume and trend of short selling, and in this connection you assume that this information is available from regular reports received from recognized dealers in United States Government securities. Your inquiry seemed to us to call for study of all such information as is available to us in connection with short sales and their effects on the Government securities market. The subject is technical and considerable time has been necessary to develop the requisite information for presentation to and review by the Federal Open Market Committee.

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As you are aware, we have no statutory authority to regulate the operations of dealers or others in United States Government securities or to compel them to make reports covering their operations. The Federal Open Market Committee instituted in 1944 a practice whereby it limited its transactions to recognized dealers and specified that in order to qualify for recognition a dealer had to submit reports on his transactions to the Manager of the System Open Market Account. This practice was discontinued in 1953 for reasons set forth in the Federal Open Market Committee's report of its ad hoc Subcommittee on the Government Securities Market dated November 12, 1952. *

Since then, such information on dealer positions as has been available to the Manager of the System Open Market Account has been given to him informally by dealers on a voluntary and confidential basis and is neither uniform nor complete. We are not therefore in a position to furnish statistics in answer to your question on the volume and trend of short selling, but shall undertake to respond as fully as possible to this and to your other questions by discussing the techniques of short selling of Government securities and the factors that delimit its impact and scope.

Short selling is an established and acceptable characteristic of most highly organized markets--in securities, commodities, and foreign exchange. Its proper use is considered an essential factor in maintaining continuous and orderly markets having adequate depth and resiliency.

It would be incorrect to assume that the United States Government securities market is characterized, in the sense of being dominated, by short selling. Because of the limitations in time for the accomplishment of the steps necessary to consummate short sales, and because of other aspects mentioned below, short selling in United States Government securities is usually limited in volume and rarely, if ever, becomes a dominant factor in the market. While anyone may make short sales, such sales, in practice, for technical reasons, are mostly confined to professional dealers specializing in these securities.

* This report appears in the printed hearings, page 257 et seq., on United States Monetary Policy, before the Subcommittee on Economic Stabilization of the Joint Committee on the Economic Report, 83rd Congress, 2nd Session.

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In considering possible problems raised by short selling, it should be kept in mind that the volume of United States Government securities outstanding is large and that the market in which they are actively traded includes not only dealers in these securities but also the managers of important portfolios that are held by insurance companies, banks, and other financial institutions throughout the country. These managers constitute a highly skilled and professionally competent group, many of whom would be quick to buy for their own portfolio's account if short selling should depress the price of any security below levels which they consider to be its investment value. Because of this situation, it is our judgment that the market for United States Government securities is now sufficiently broad, experienced, competitive, and arbitrage-minded as to make unlikely any successful manipulation.

Occasions for Short Selling. -- Short selling by dealers arises in part from their activities in maintaining a market for United States Government securities. In the process of making a market, a process essential to the maintenance of a continuous market, a dealer must be prepared to buy or sell at his quoted prices, and to carry over a period of time the position which he takes. It is not practical for a dealer to carry in his portfolio a supply of every outstanding issue. Nevertheless, he must be prepared to sell (or buy) any issue in a reasonable amount in response to the demands of his customer, even though he does not have the specific issue and has no immediate prospect of acquiring it, i.e., reversing the transaction. Thus, he does more than merely match orders to buy with orders to sell. In his operations, he is obliged to take either short or long positions on his own account in the various issues involved in order to complete transactions.

Short selling of this kind occurs in all sectors of the Government securities market--short-term, intermediate-term, and long-term. In order to protect themselves against the risks involved in filling customer orders for issues they do not have on hand, dealers often hedge such short sales by acquiring or keeping long positions in similar issues. They are able to fill orders, maintain continuous markets, and limit their risks by hedging since prices tend to move similarly in the same maturity range. This affords protection against future adverse price movements of the issues sold short.

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In expectation of future changes in the price of one security as against another, dealers may initiate arbitrage transactions, that is, transactions in which they buy one issue and simultaneously sell another. Such an operation aids in the maintenance of a consistent pattern of prices and yields and thus makes for a less erratic and more continuous market. At any given time, as a result of these operations, dealers may be short some issues and long others and still maintain relatively balanced portfolios without making assumptions as to future price movements. Indeed, by maintaining such short and long positions, they gain some protection against future price changes, since potential profit and loss realizations tend to be offsetting.

Technical conditions associated with dealer operations sometimes give rise to dealer short-positions. For example, the dealer bids for Treasury bills Monday but does not receive delivery until Thursday. Any interim sales of these bills for Thursday delivery might be considered short sales. Again, if a dealer sells when-issued securities, i.e., securities which the Treasury has offered to exchange for an existing issue at maturity, the dealer is technically short, even though he holds in his possession the maturing issue for which the new security is to be exchanged when it is issued.

Short selling also arises out of the judgments of dealers and other participants as to the future course of the general level of prices in the Government securities market. If the seller deems the market to be over-valued, he may endeavor to sell various issues, i.e., take a net short position in them, on the assumption that a subsequent price decline will permit covering at a profit.

To make such decisions, dealers are constantly assessing the outlook for future demand and supply of credit as influenced by over-all trends in the economy. Such short selling as is prompted by these considerations is likely to be greatest during periods of business expansion when interest rates tend to rise and bond prices tend to decline. At such times, dealers are reluctant to replace sales or to maintain large inventories (net long positions) because of the prospective losses involved. Basically, dealers are merchants and their positions are not usually taken for investment, but are intended for frequent and rapid turnover at a profit. This applies to their long as well as to their short positions.

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Because price adjustments are largest in the intermediate and long-term area for a given change in yield levels, this type of short-selling activity is frequently directed to such issues. These sales may accentuate a market decline at the time they are initiated but they create a short position which must be covered. And when covering occurs, they help to check any market decline and have a definitely restabilizing effect. The short seller then becomes an important factor in moderating or in turning a downtrend. At that time he assimilates offerings to cover sales previously made and often converts from a short position to a long position.

There is a difference of opinion as to whether on balance short selling by professional dealers accentuates market fluctuations. Price fluctuations may be aggravated to the extent that short selling is stimulated by purely temporary price weakness and to the extent that short covering is occasioned by purely temporary price rallies. On the other hand, to the extent that the seller correctly calculates future demand and supply conditions, short selling may operate to moderate price movements because it will help not only to maintain continuous markets but also to anticipate future trends.

Mechanics of Short Selling. -- To negotiate a short sale, a seller must accomplish three things: (1) He must have a buyer for the issue to be sold; (2) he must ordinarily borrow the securities involved; and (3) he must eventually purchase an equivalent amount of the same issue in order to return in kind the securities borrowed. In making a short sale of Government securities, the dealer usually borrows the issue involved and posts as collateral with the lender some other issue, in which he has a long position. Occasionally, the dealer may use the cash proceeds of the sale as collateral. Because only a limited number of holders will lend securities, and in many cases only for brief periods, there are times when short selling in substantial amounts is difficult because the securities are not available for loan.

The short seller must pay the lender a fee for the privilege of borrowing the security, usually at the rate of one-half per cent per annum; in addition, he must in effect pay accrued interest at the coupon rate for the period he is short. On a borrowed 2-1/2 per cent bond, the gross carrying costs of a short sale contract would thus be at 3 per cent per annum; however, to the extent that the interest earned on the collateral can be regarded as an offset against this gross carrying charge, the resulting net carrying costs would be less.

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In addition to the carrying costs of short selling, the dealer risks failure of his price expectations to be realized and thereby incurs the added cost of having to cover his short position at a price above the original sale. In cases where the short sale is undertaken in anticipation of price declines, collateral is frequently posted in Treasury bills; consequently, there is little hedging of risk since price fluctuations on Treasury bills are necessarily limited.

Of course the technical arrangements, mentioned above, do not have to be made and securities do not have to be borrowed when a customer is willing to accept the dealer's assurance that a purchase for future delivery will be consummated.

Federal Reserve Influence. -- As previously mentioned, dealers' decisions on short selling are conditioned by their appraisal of the underlying factors that affect the supply of and demand for credit. One such evaluation is their judgment of the objectives and probable impact of Federal Reserve credit policy.

In making these broad judgments, dealers have no advantage over other participants in the market. All have equal access to the published weekly statements of the Federal Reserve Banks. Although dealers buy securities from or sell securities to the Federal Open Market Account, these transactions in themselves are not indicative of the direction of Federal Reserve policy. Transactions for the Account are most often executed in Treasury bills, which are bought and sold for the purpose of maintaining an appropriate volume of reserves and the price fluctuations are so small that they offer limited opportunity for profit through their short sale.

Many of these System transactions are designed to offset the effect on reserves resulting from temporary or erratic movements in such factors as float or the Treasury balance. It is because of these transactions that the trend of Federal Reserve policy is not indicated to the market by specific purchases or sales of United States Government securities but rather by the figures published in the weekly statements showing member bank borrowing from the Federal Reserve and the excess reserve position of the member banks. These weekly statements of Federal Reserve operations show that purchases are often made in weeks when general credit policy is restrictive and sales are initiated in weeks when policy is directed toward ease. In fact, during

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the year 1954 as a whole, sales of United States Government securities exceeded purchases even though Federal Reserve policy throughout the year was directed toward ease.

In the foregoing response, we have sought to cover all of the significant aspects of this subject as fully and as simply as the limitations of correspondence and the technical nature of transactions of this type permit.

Messrs. Riefler, Koch, and Miller then withdrew from the meeting.

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memorandum dated August 9, 1955, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending that the Board grant leave of absence without pay to John F. Clark, Senior Federal Reserve Examiner in the Division of Examinations, for the period beginning August 11, 1955, and ending August 26, 1955.

Approved unanimously.

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

In accordance with the request contained in your letter of August 10, 1955, the Board approves the designation of William M. Blount as a special assistant examiner for the Federal Reserve Bank of Atlanta for the purpose of participating in the examinations of State member banks only.

Approved unanimously.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Minneapolis for the period August 1, 1955, through December 31, 1955, at their present rates as indicated below, which are

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the rates fixed by the Board of Directors as reported in your telegram of August 11, 1955.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Kyle K. Fossum	Vice President	\$10,000
Arthur J. McNulty	General Auditor	8,300

Approved unanimously.

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

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by The Merchants Bank of New York, New York, New York, at 62 West 47th Street, New York, New York, provided that (1) prior to the establishment of the branch the bank's capital funds shall be increased by not less than \$300,000 of which \$100,000 shall represent common stock and (2) the branch is established within six months from the date of this letter.

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

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

Pursuant to your requests submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by Hempstead Bank, Hempstead, New York, of a branch at each of the following locations:

- (1) On the north side of North Hempstead Turnpike (Route 25-A) approximately 270 feet west of Oyster Bay Road in the unincorporated area of East Norwich, Nassau County, New York,
- (2) 1453 Northern Boulevard, in the unincorporated area of Manhasset, Nassau County, New York,

provided that (a) prior to the establishment of these branches the bank's capital funds shall be increased by not less than

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\$500,000 through the sale of new stock and (b) the East Norwich branch is established within one year from the date of this letter and the Manhasset branch is established within six months from the date of this letter.

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:

Reference is made to your letter of July 27, 1955, submitting the request of The Farmers Banking Company, Lakeview, Ohio, for the Board's approval under the provisions of Section 24A of the Federal Reserve Act of an investment in bank premises which will exceed the amount of its capital.

After considering the available information, the Board approves a maximum investment in bank premises by The Farmers Banking Company of \$98,500 covering land, building and incidental expenses. It is understood that the old bank building is to be sold for \$11,000, which amount will be applied to reduce the book value of the new bank premises to an amount not to exceed \$87,500.

Approved unanimously.

Letter to the Board of Directors, First National Bank of Cicero, Cicero, Illinois, 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 registrar of stocks and bonds, assignee, receiver, 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 Illinois. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, guardian of estates, and committee of estates of lunatics, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

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A formal certificate indicating the fiduciary powers which the First National Bank of Cicero 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. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

This refers to your letter of August 3, 1955, regarding the contract that is being executed with the Dinwiddie Construction Company for the additions and alterations to the San Francisco building.

As reported in your telegram of June 22, under the alternate type of contract that was recommended the work was to be done at cost plus a fee of \$25,000 or 5 per cent whichever is the lower, with total cost including fee guaranteed not to exceed \$770,050. In your letter you explain that that total included both the basic bid of \$686,150 and \$83,900 for alternates (additional work not included in the specifications on which the basic bid was submitted) and that the \$83,900 figure includes a \$4,000 fee for the contractor. The result is that the amount of the fee will be \$29,000 or 5 per cent of the actual cost, whichever is the lower, but that there is no change in the provision that the total cost including fee will not exceed \$770,050. The Board of Governors will interpose no objection to this change which has been approved by the Directors of the Bank.

Your thoughtfulness in providing this clarification of the contract is appreciated.

Approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Vest dated August 12, 1955, regarding the question whether section 32 of the Banking Act of 1933 would prohibit Mr. W. T. Vandoren, President and a director of the Liberty National

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Bank of Washington, Washington, D. C., and Messrs. N. B. Frost and F. N. Towers, directors and counsel of the bank, from continuing to serve the bank in those capacities in view of their relationships with either the Washington Mutual Investors Fund, Inc., or Johnston, Lemon & Co., Washington, D. C. The memorandum stated that both the Washington Mutual Investors Fund and Johnston, Lemon & Co. were understood to be engaged in a type of business of the kind described in section 32. It concluded, however, that neither Messrs. Vandoren and Towers, as members of the Fund's Advisory Board, nor Messrs. Towers and Frost, as counsel to the Fund and the securities company, appeared to have any of the usual functions of an officer, a director, or an employee of either the Fund or the securities company and that the interlocking relationships therefore would not come within the prohibition of section 32.

After summarizing the facts involved, Mr. Vest referred to the position taken by the Board yesterday in the Buford Scott case and expressed the opinion that this case would seem to fall well within the limits of that decision. He also said that there was unanimity of opinion in the Legal Division and that the Federal Reserve Bank of Richmond possibly would not have considered it necessary to refer this matter to the Board except for the fact that there was some similarity to the Buford Scott case.

Thereupon, unanimous approval
was given to a letter to Mr. Heflin,
Vice President and General Counsel

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of the Federal Reserve Bank of
Richmond, reading as follows:

This refers to your letter of August 10, 1955, and its enclosures, concerning whether section 32 of the Banking Act of 1933, as amended, prohibits Mr. W. T. Vandoren, president and director of the Liberty National Bank of Washington, Washington, D. C., and Messrs. N. B. Frost and F. N. Towers, directors and counsel of the bank, from continuing to serve the bank in those capacities in view of their relationships with either the Washington Mutual Investors Fund, Inc., or Johnston, Lemon & Co., Washington, D. C. You indicated that the bank presented the matter at the request of the National Bank Examiner.

On the basis of the information contained in your letter, and in the enclosures with your letter, the Board is of the view that continuance of the interlocking relationships of Messrs. Vandoren, Frost and Towers are not such at this time as to be prohibited by the statute. It is noted that this is in accord with the view expressed in your letter.

It should be understood, of course, that if there should be any material change in the circumstances of these interlocking relationships at any time, it may be necessary to give the question further consideration.

There had been sent to the members of the Board copies of a memorandum from Mr. Leonard dated August 15, 1955, relating to the building program of the Pittsburgh Branch, Federal Reserve Bank of Cleveland. On May 12, 1955, the Board authorized the Reserve Bank to call for bids for additions to, and alterations of, the branch building. The bids were obtained and in a letter dated July 29, 1955, the Bank requested authorization to let the contracts. Mr. Leonard's memorandum, which discussed the cost of the program, a proposed change in the exterior design of the additions, and the results of the bidding, was based on information submitted

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by the Reserve Bank and on discussions which Mr. Leonard had with the architects, the general contractors, and representatives of the Reserve Bank during a trip to Pittsburgh on August 11 and 12, 1955. It was his recommendation that no objection be interposed to the awarding of the contracts and that the Reserve Bank be given authorization covering expenditures of approximately \$4,525,000 for the program, including an allowance for contingencies.

Following comments by Mr. Leonard on the points covered in his memorandum and a discussion of those points, unanimous approval was given to a telegram to Mr. Fulton, President of the Federal Reserve Bank of Cleveland, reading as follows:

Board interposes no objection to awarding contracts for additions to and alterations of Pittsburgh Branch building in accordance with the recommendations of the directors of the Bank and Branch, as set forth in your letter of July 29, 1955. Board authorizes expenditures of approximately \$4,525,000 for the program.

Mr. Leonard then withdrew from the meeting.

A request had been received from Shearman & Sterling & Wright, of New York City, representing the International Banking Corporation, that the time for submission of the Corporation's views regarding the proposed revision of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, be extended. A reply had been drafted which would grant an extension of 30 days and state that the comments should reach the Board's offices not later than Monday, September 19.

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Following a discussion, during which certain changes in the language of the draft of reply were suggested, unanimous approval was given to a letter to Shearman & Sterling & Wright in the following form:

This refers to your letter of August 11, 1955, requesting that the time for submission of the views of International Banking Corporation regarding the draft revision of Regulation K be extended. In view of the considerations mentioned in your letter, the Board extends the time for the submission of the Corporation's comments in this matter for thirty days. It is hoped that this will give adequate time for submission of views, but in any event the Board will expect to receive the Corporation's comments not later than Monday, September 19.

At the meeting of the Board yesterday, consideration was given to advice from Marine Midland Corporation of the contemplated acquisition of banks in Carthage and Springville, New York, and their merger into banks in the Marine Midland group. Pursuant to the understanding at the meeting yesterday, a letter to Mr. Phelan, Vice President of the Federal Reserve Bank of New York, had been drafted in a form intended to give expression to the position agreed upon by the Board.

Following a reading of the draft, one minor change in it was suggested and unanimous approval was given to a letter to Vice President Phelan in the following form:

This refers to your letters of July 14 and July 22, 1955, regarding informal advice received from Mr. Bayard F. Pope, Chairman of the Executive Committee of Marine Midland Corporation, to the effect that the Corporation is contemplating acquisition of the Carthage National Exchange Bank, Carthage, New York, and The Citizens National Bank of Springville, Springville,

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New York, with a view toward merging such banks respectively into, and converting them into branches of, The Northern New York Trust Company, Watertown, New York, and The Marine Trust Company of Western New York, Buffalo, New York.

On the basis of the preliminary information submitted to it, the Board of Governors is not disposed to disapprove the proposed transactions but, of course, will base its final actions on full information to be furnished with the applications for limited voting permits and for permission to establish the proposed branches.

It is requested, however, that you apprise Marine Midland Corporation of the fact that, in connection with the Board's consideration of this subject, members of the Board have expressed strong reluctance to agree to further continued expansion of the Marine Midland group through acquisition of additional banks in sections where the group already has substantial concentration.

By a letter dated August 3, 1955, Mr. Joe David, an attorney of St. Louis, Missouri, requested a copy of the minutes of the Board relating to the Board's action in 1933 ordering the Mercantile Commerce Bank and Trust Company, of St. Louis, to dispose of its holdings of stock of the Mercantile-Commerce National Bank. There had been circulated to the members of the Board a memorandum dated August 9, 1955, from Mr. Hackley, Assistant General Counsel, stating that the information requested by Mr. David appeared to be of a kind which, under the Board's Rules of Organization, would not be disclosed by the Board, and which presumably the Board would not wish to disclose, since it related to the business or transactions of a particular bank. In any event, the memorandum stated, the request did not comply with the procedural requirements of the Rules of

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Organization. It was suggested that a letter be sent to Mr. David enclosing a copy of the pertinent parts of the Rules of Organization and advising him that the request did not appear to comply with the requirements therein prescribed.

Governor Vardaman questioned the advisability of sending the reply as drafted since he assumed that the Board would not furnish the information sought by Mr. David even if a request were made in a form which met the requirements of the Rules of Organization. He suggested amplifying the letter to include, as a matter of general information, a sentence which would state that it is not the Board's practice to disclose information concerning the business or personal affairs of any bank or other person.

Following a discussion, unanimous approval was given to a letter to Mr. David in the following form:

This refers to your letter of August 3, 1955, requesting information regarding certain transactions involving the Mercantile Commerce Bank and Trust Company of St. Louis, Missouri, in 1933 or the early part of 1934.

The basis upon which the Board considers requests for unpublished information of the Board is set forth in sections 261.2 and 261.3 of the Board's Rules of Organization which are contained in Part 261 of Title 12 of the Code of Federal Regulations, and it does not appear that your request meets the requirements there prescribed. For your general information, it is not the practice of the Board to disclose information concerning the business or personal affairs of any bank or other person. A copy of the above-mentioned sections of the Board's Rules of Organization is enclosed for your information.

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Mr. Carpenter referred to the discussion at the meeting on August 15, 1955, concerning a letter dated July 22, 1955, from Mr. Maurice C. Sparling, then Superintendent of Banks of California, expressing concern over the Board's denial of the application of the California Bank, Los Angeles, California, for permission to establish a branch in Fullerton, California. He recalled that the Board decided to defer a reply until after the return of Governor Robertson unless a check disclosed reasons why a reply should go forward at an early date. It was the feeling of the staff, he said, that some reply should be made at this time with a view to having the California State banking authorities submit any information which they desired in the light of a request by the California Bank for reconsideration of the Fullerton case. He then read a revised draft of letter to Mr. William A. Burkett, Superintendent of Banks, State Banking Department, San Francisco, California, reading as follows:

The Board regrets to learn from Mr. Sparling's letter of July 22, 1955, that he was concerned over the Board's denial of the application of the California Bank, Los Angeles, for permission to establish a branch in Fullerton, California.

The California Bank has requested a reconsideration of its application to establish the branch and the Board of Governors will be glad to receive any further facts or representations which your office may wish to present in connection with this proposal. In order that the matter may be expedited, the Board will appreciate prompt advice as to your wishes in the matter.

The letter was approved
unanimously.

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Mr. Young discussed the recent survey of instalment credit terms made by the Instalment Credit Commission of the American Bankers Association at the Board's request and indicated that the data obtained were not adequate to interpret the trend in terms. Since it appeared to the staff, he said, that the obtaining of reports on some systematic basis was necessary, there had been exploration through the Federal Reserve Banks of the possibility of getting monthly reports of contract terms on automobile instalment credit from a sample of commercial banks. He went on to say that the response was sufficiently favorable to warrant initiating the collection of the data and that, in addition, it was proposed to ask a number of finance companies to furnish similar information, which in their case would be sent direct to the Board. He recalled that at the informal meetings of the Board last week with finance company and bank representatives, the reaction to the collection of data of this kind was quite favorable. He also recalled that at the August 11 meeting (with commercial bank representatives) a joint conference of the Board with finance company and bank representatives was suggested. Availability of the data in question, he pointed out, would provide background information that would be useful for such a joint meeting.

Agreement having been expressed with the program outlined by Mr. Young, Governor Balderston suggested that inasmuch as the preliminary contacts looking toward the institution of the program had been with the heads

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of research at the Reserve Banks, a letter be sent to the Presidents of all of the Reserve Banks to assure that they were fully informed concerning the project.

It was agreed that a letter of the kind suggested by Governor Balderston should be sent.

Secretary's Note: Pursuant to this action, the following letter was sent to the Presidents of all Federal Reserve Banks on August 18, 1955:

During the past year and a half the Board's interest in the trend of instalment credit terms has led it to ask the Instalment Credit Commission of the American Bankers Association to conduct surveys of its membership on three different occasions. On one such occasion, August of last year, the Board also asked the Federal Reserve Banks to participate. While these surveys have been very helpful in giving a general perspective of the situation, the lack of quantitative information has made it difficult to assess the trend in any precise manner. Consequently, the Board has decided to attempt a program of collecting monthly reports of contract terms on automobile instalment credit from a sample of commercial banks and sales finance companies. The data from the latter will be obtained directly from them.

The proposal is to obtain, through the Federal Reserve Banks, such information from a sample of approximately 100 commercial banks. This would involve monthly reports classifying automobile instalment contracts purchased by the banks and their direct automobile loans according to the maturities of the paper and the ratios of down payment to purchase price. Separate information would, of course, be necessary for instalment contracts on new and used automobiles. For banks which have their instalment credit records on punch cards, or are otherwise mechanized, the reporting should not present any substantial burden. For other banks, it may be possible to obtain the information for a representative sample of their automobile contracts.

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In connection with this project, the heads of research were asked last month to undertake some exploratory work among the commercial banks in each district. There was sufficient favorable response to encourage the Board to continue with the program. The Board's staff will be in touch with the heads of research regarding the technical details involved in the reporting procedure.

The Board hopes that it can begin to receive regular monthly reports from each district beginning next month which would cover automobile contracts purchased or written in August. Publication of this information at the national level is not anticipated in the immediate future. It is planned to continue with the project for a period of six months after which it will be evaluated and a final determination made as to whether or not the publication of statistics covering this information should be undertaken.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 16, 1955, were approved unanimously.

The members of the staff then withdrew and the Board went into executive session.

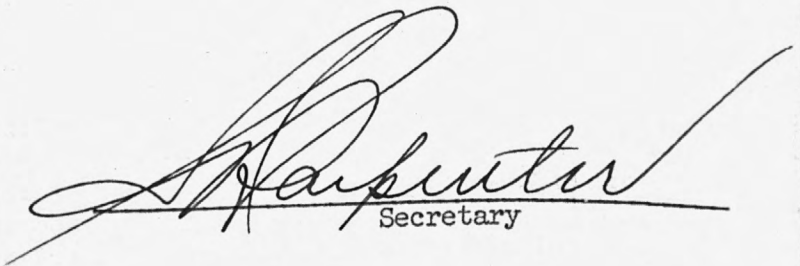
The Secretary later was informed that during the executive session approval was given to a letter for the signature of Chairman Martin to Dr. F. F. Hill, Provost, Cornell University, Ithaca, New York, reading as follows, together with a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, enclosing a copy of the letter to Dr. Hill and stating that the Board concurred in President Sproul's opinion that there appeared to be no reason why Dr. Hill's forthcoming change in affiliations should affect his appointment as a Class C director:

Thank you for your letter of August 2, 1955, advising of your resignation as Provost of Cornell University, effective October 15, to become Vice President of the Ford Foundation.

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Your comments with respect to your association with the Federal Reserve Bank of New York are most gratifying, and the Board of Governors will be happy to have you continue to serve as a Class C director while serving with the Ford Foundation. It is noted from your letter that as Vice President of the Ford Foundation, while you will have immediate responsibility for the overseas development program of this organization, your office will be located in New York City. It is therefore assumed that your duties with the Ford Foundation will not interfere with the continuation of your duties as a Class C director.

The meeting then adjourned.


Secretary