

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, September 19, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Bethaa, Director, Division of
 Administrative Services
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Re-
 search and Statistics
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Shay, Assistant Counsel

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

Memoranda from appropriate individuals concerned recommending the appointment of the following persons, with basic salaries at the rates indicated, effective as of the dates on which they enter upon the performance of their duties:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>
Marjorie B. McCutchan, Records Clerk	Office of the Secretary	\$3,415
James Raymond Carnahan, Guard	Administrative Services	2,960

Approved unanimously.

Secretary's Note: In connection with the appointment of Mr. Carnahan, Governor Balderston raised a question as to the

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desirability of continuing the customary procedure of seeking applicants for the guard force who have military or police experience. The reasons for such a procedure were outlined and it was understood that the question would be borne in mind in connection with the selection of applicants in the future.

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective September 25, 1955:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Irma B. Gavin, Draftsman		\$4,345	\$4,480
	<u>Bank Operations</u>		
Mary Malinchock, Statistical Clerk		3,415	3,500
	<u>Examinations</u>		
Charles N. Griffin, Supervisory Review Examiner		10,965	11,180
J. Frank Holahan, Supervisory Review Examiner		10,750	10,965
Norma L. Neitzey, Clerk-Stenographer		3,940	4,075
	<u>Personnel Administration</u>		
Jane Donohoe, Clerk-Stenographer		3,585	3,670
	<u>Administrative Services</u>		
Flora J. Griffith, Chief Telephone Operator		4,075	4,210

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Salary increases, effective September 25, 1955 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Administrative Services</u>		
Mary E. Johnson, Telephone Operator		\$3,840	\$3,925
Esmond C. Langley, Messenger		3,030	3,115
W. S. Pool, Chief Telegraph Operator		4,755	4,890
Aubrey L. Simmons, Guard		3,215	3,300

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

In accordance with the request contained in your letter of September 2, 1955, the Board approves the appointment of Lee J. Aubrey, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Boston. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. Fred A. Dons, as an officer of the Federal Reserve Bank of Chicago with the title of Assistant General Auditor, for the period November 1, 1955, through December 31, 1955, at the rate of \$12,000 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of September 9, 1955.

Approved unanimously.

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Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of August 25, 1955, regarding the request of the Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, for a further extension of 60 days from September 9, 1955, within which to establish a branch in the Upper Falls section of Newton, Massachusetts.

After consideration of all the information available, the Board of Governors concurs in your recommendation and extends to November 8, 1955, the time within which the Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, may establish the aforementioned branch as originally approved in the Board's letter of June 9, 1954. Please advise the bank accordingly.

Approved unanimously.

Letter to the Board of Directors, The County Trust Company, White Plains, New York, reading as follows:

The Board of Governors approves the establishment of a branch by The County Trust Company, White Plains, New York, in the vicinity of the intersection of Main Street and Grant Avenue, Peekskill, New York, provided 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, Manufacturers and Traders Trust Company, Buffalo, 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 Manufacturers and Traders Trust Company, Buffalo, New York, at the southeast corner of the intersection of Route 5 (Main Street) and Route 78 (Transit Road) in an unincorporated area of the

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Town of Clarence, Erie County, New York, 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.

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

In view of the circumstances outlined in your letter of September 7, 1955, and the Reserve Bank's favorable recommendation, the Board of Governors extends until March 15, 1956, the time within which The Richland Trust Company, Mansfield, Ohio, may establish a branch in the vicinity of Cook Road and Lexington Road, Maple Heights Allotment, Madison Township, Richland County, Ohio.

Approved unanimously.

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

As recommended in your letter of September 2, 1955, the Board of Governors extends to March 18, 1956, the time within which Southern Arizona Bank and Trust Company, Tucson, Arizona, may establish a branch in Nogales, Arizona.

Please notify the bank of this extension.

Approved unanimously.

Secretary's Note: In connection with this matter, Governor Robertson pointed out that control of Southern Arizona Bank and Trust Company was being acquired by Transamerica Corporation. He felt that knowledge of the sale of the institution might have caused the branch application to be considered in a somewhat different light when it was originally submitted, but said that the application having been approved, the extension of time would seem to be warranted.

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

Reference is made to your letter of August 30, 1955, advising of the proposal of the American Trust Company, San Francisco, California, to move its Menlo Park Office, which is presently located at 720 Santa Cruz Avenue, Menlo Park, directly across the street on Santa Cruz Avenue.

We concur in your view that the proposal constitutes a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served, and, therefore, the approval of the Board of Governors is not necessary.

Approved unanimously.

At the meeting on August 25, 1955, the Board considered a recommendation that a contract be awarded to Judd and Detweiler, Inc., of Washington, D. C., for printing 100,000 copies of "The Federal Reserve System--Purposes and Functions". There was agreement with the suggestion that competitive bids be invited, with the understanding that the invitations would be restricted to printers who had been recommended for the first printing of the third edition of the booklet and who had expressed some interest in work of that kind. As stated in a memorandum from Mr. Bethea dated September 13, 1955, which had been circulated to the members of the Board, invitations for bids subsequently were extended to three firms, of which two advised that they could not undertake the work because of previous commitments. The bid submitted by Judd and Detweiler, Inc., was identical with the quotation contained in an earlier letter

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from that firm. Accordingly, Mr. Bethea's memorandum recommended that the bid of \$27,886 submitted by Judd and Detweiler, Inc., be accepted and a contract awarded to that firm. The memorandum also recommended that, as in the case of the first two printings of the third edition of the System booklet, copies be distributed without charge.

Following comments by Mr. Bethea, the recommendations contained in his memorandum were approved unanimously.

Mr. Bethea then withdrew from the meeting.

There had been circulated to the members of the Board a draft of letter to the Federal Reserve Bank of Philadelphia granting an extension of time for The Easton Trust Company, Easton, Pennsylvania, to establish a branch at 516 March Street in that city. Governor Vardaman had appended to the file a note suggesting that a rewording of the draft be discussed at a meeting of the Board.

Governor Robertson stated that in view of comments with regard to the wording of similar letters which had been made by Governor Vardaman at other occasions, he felt that the suggestion had to do with a statement in the draft that the Board's action followed "due consideration of all the information available". In the circumstances, he recommended that appropriate changes be made and the letter then approved.

Governor Shepardson suggested that in a situation of this kind it might be appropriate to use wording such as "on the basis of the information submitted".

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Thereupon, unanimous approval was given to a letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, in the following form:

Reference is made to your letter of September 2, 1955, regarding the request of The Easton Trust Company, Easton, Pennsylvania, for an extension of time in which to establish a branch at 516 March Street, Easton, Pennsylvania.

On the basis of the information submitted the Board of Governors concurs in your recommendation and extends, to December 29, 1955, the time within which The Easton Trust Company, Easton, Pennsylvania, may establish the branch at the aforementioned location as originally approved in the letter of the Board of Governors of March 31, 1955. Please advise the bank accordingly.

Reference was made to the request of St. Joseph Valley Bank, Elkhart, Indiana, for permission to establish an in-town branch at the intersection of East Jackson Boulevard and Elkhart Avenue. The Federal Reserve Bank of Chicago and the Board's Division of Examinations both recommended approval provided the bank's capital funds were increased by not less than \$200,000 through the sale of additional common stock prior to the establishment of the branch. When the file was in circulation to the members of the Board, Governor Robertson attached to it a note indicating that he would favor rejecting the application on the grounds that the bank was inadequately capitalized. He would state, however, that the Board would reconsider the application if additional capital was injected.

Governor Mills pointed out that according to the file the Federal Reserve Bank of Chicago had received a letter from the president of the

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applicant bank advising that a program for the sale of capital stock to provide \$200,000 would be recommended to the board of directors on September 8, 1955. If this could be construed as a tacit commitment, he suggested that there seemed to be no reason to deny the application.

Governor Robertson said there was some doubt in his mind as to whether the letter from the president of the bank was sufficient for he did not know whether the president was in a position to speak for the bank's directors. If, on the other hand, the Board had information that the bank's directors were proceeding with a program to sell additional common stock, he would favor granting the branch application without any condition in respect to capital. Since the meeting of the directors was to have been held on September 8, he suggested that the Board defer action until it could be ascertained whether the directors had voted to sell additional stock.

There was unanimous agreement with the procedure suggested by Governor Robertson.

With reference to procedure in connection with the handling of applications for branches submitted by State member banks, Mr. Sloan pointed out that in some cases there might not be agreement between a Federal Reserve Bank and the Board's Division of Examinations regarding the amount of additional capital funds which should be provided before a bank was considered adequately enough capitalized to warrant consideration of a branch application. For this reason, he suggested that it

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would seem necessary in the course of negotiations with the applicant bank for the Reserve Bank to have an indication as to how much capital the Board would require before it was willing to give consideration to a branch application.

Governor Robertson said that in the final analysis the Board, rather than the Reserve Bank, must be satisfied as to the adequacy of capital, and that it would therefore seem proper for the Division of Examinations to convey its views to the Reserve Bank as a basis for negotiation with the State member bank even though it might not be appropriate at that stage to make a specific statement in a communication to the member bank. He continued of the opinion that the question of a bank's capital position was a matter to be treated separately from a branch application and that the Board should be fully satisfied as to the adequacy of capital before considering a request to establish a branch.

On August 8, 1955, the Board disapproved an application of the Fidelity Trust Company, Indianapolis, Indiana, to establish a branch at 5515 West Washington Street, Ben Davis, Indiana, principally because a national bank had been granted permission to operate a branch in the same area and the national bank's application was understood to have been filed prior to the application of the State member bank. In a memorandum dated September 7, 1955, which had been circulated to the other members of the Board, Governor Robertson described subsequent developments in connection

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with this matter and recommended that the branch application now be approved. The memorandum brought out that although Fidelity Trust Company began its investigation of the branch site early in January 1955, it was not permitted by reason of State requirements to file a formal application until later; that the competing national bank therefore was able to file an application for a branch in the immediate area before Fidelity Trust Company filed its formal application; that Fidelity Trust Company, on being advised of the Board's decision, considered other sites but found the alternatives to be impracticable; and that the applicant bank and the Federal Reserve Bank of Chicago were of the opinion that the area could adequately support two branch institutions. In the memorandum, Governor Robertson stated that he had discussed with the president of the Fidelity Trust Company the matter of the bank's capital structure and the question of management. With regard to the capital position, the president advised that the capital would be increased by approximately \$750,000 immediately after the first of next year and that if the bank continued to grow at its present rate, additional capital commensurate with the growth would be provided. With regard to management, steps reportedly were being taken to improve the official staff by acquiring outside talent.

At this meeting, Governor Robertson summarized the reasons set forth in his memorandum which led him to conclude that the branch application

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should be approved. He also stated that the requirement of the Indiana State banking authorities pursuant to which a State bank must make a public investigation of a branch site before filing a formal application seemed to give an unfair advantage to competing national banks and that there was an indication on the part of the State authorities that this procedure would be changed. It was his opinion that the oral commitment of the president of Fidelity Trust Company regarding a capital increase could be relied upon, and in all the circumstances he recommended that this case be treated as an exception to the general rule by which priority is established according to the date on which formal application for a branch is filed.

Thereupon, unanimous approval was given to a letter to the Board of Directors, Fidelity Trust Company, Indianapolis, Indiana, reading as follows, with the understanding that the letter would be transmitted through the Federal Reserve Bank of Chicago and that the Reserve Bank would be sent a copy of Governor Robertson's memorandum of September 7, 1955:

In view of additional information submitted and in accordance with your request the Board of Governors has reconsidered your application and approves the establishment of a branch at 5515 West Washington Street, Ben Davis, Indiana, by the Fidelity Trust Company, Indianapolis, Indiana, provided such branch is established within six months from the date of this letter.

At this point Messrs. Leonard, Director, Division of Bank Operations, and Boothe, Administrator, Office of Defense Loans, entered the meeting.

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Reference was made to a memorandum from Mr. Sherman dated September 16, 1955, copies of which had been sent to the members of the Board, concerning a telephone conversation which he had on that day with a representative of the Federal Reserve Bank of Chicago relating to a request by the Department of the Army that the Reserve Bank, in its capacity as fiscal agent under the V-loan program, handle certain funds to be paid by a defense contractor for the account of the Government. It appeared that as a result of price renegotiation the contractor owed the Government approximately \$3 million but was unable to pay that sum at present and therefore was expected to make payments out of future earnings. The Reserve Bank would receive these payments and periodic earnings reports but would have no "policy" function. It was understood that the performance of this service would present no operating problem to the Reserve Bank, that the Bank would receive reimbursement in a manner similar to reimbursement for other work in connection with the V-loan program, that the Bank was willing to perform the service, but that President Young desired to have the proposed function brought to the Board's attention before the Reserve Bank undertook to perform it.

The matter was discussed and it appeared from conversations which Mr. Boothe had with representatives of the Department of Defense that the program for the country as a whole might develop into a sizable one. In the circumstances, Mr. Boothe had asked the Defense Department to send

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a letter or memorandum to the Board making a formal request that the Reserve Banks perform the activity in question. Mr. Boothe also said it was his understanding that not all of the cases would involve borrowers under the V-loan program.

No objection was interposed by the members of the Board to the Chicago Reserve Bank performing the requested service in the specific case to which the Bank had called the Board's attention, but it was felt that it would be advisable to have a general discussion of the matter by the Presidents of the Federal Reserve Banks in the light of the consideration given on previous occasions to requests made by various agencies of the Government that the Reserve Banks perform various fiscal agency or depository functions.

Accordingly, it was agreed unanimously (1) that the Federal Reserve Bank of Chicago should be advised informally that the Board had no objection to its handling payments from the defense contractor whose case was the subject of the request from the Department of the Army, provided it was clearly understood that this would not constitute a precedent, (2) that arrangements should be made through the Chairman of the Presidents' Conference to have the matter of the general program which might be involved placed on the agenda for discussion at the next meeting of the Presidents' Conference, and (3) that if inquiries concerning the program were received by Mr. Boothe from the Department of Defense, he should state that the matter was being referred to the Reserve Bank Presidents and that a definite reply would be deferred until after the next meeting of the Presidents' Conference.

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Secretary's Note: On September 20, 1955, Mr. Boothe was informed by an official of the Defense Department that in his opinion the Federal Reserve Banks would not be requested to perform this service, the reason being that the cost apparently could not properly be charged to the V-loan program. The Defense Department official also stated that the Chicago case was not connected with a guaranteed loan and that the Chicago Reserve Bank would not be called upon to collect the funds.

Mr. Boothe then withdrew from the meeting.

Governor Robertson referred to an application of The First National Bank of Oakland City, Oakland City, Indiana, for permission to exercise a specific fiduciary power. The recommendation of the Division of Examinations was favorable and Governor Robertson concurred in it. He then stated that advice of the Board's action was desired on or before September 20, 1955, and described the trust power which would be exercised.

Thereupon, unanimous approval was given to a letter to the Board of Directors, The First National Bank of Oakland City, Oakland City, Indiana, reading as follows, for transmittal through the Federal Reserve Bank of St. Louis, with the understanding that the Reserve Bank would be notified of the Board's action by telegram:

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 for bond issues and registrar of stocks and bonds of the Oakland Columbia School Building Company, Inc., the exercise of such

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authority 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 certificate covering such authorization is enclosed.

Governor Balderston referred to a letter addressed to Chairman Martin under date of September 13 by Mr. J. Edgar Hoover, Director, Federal Bureau of Investigation, expressing appreciation for the cooperation extended by several of the Federal Reserve Banks in connection with the attempt to identify ransom money paid in the so-called Greenlease Kidnaping Case which occurred in Kansas City, Missouri, last year.

It was agreed that an appropriate response should be sent to Mr. Hoover over the signature of Vice Chairman Balderston and that copies of the correspondence should be sent to the Presidents of all Federal Reserve Banks for their information.

Secretary's Note: Pursuant to this action, the following letter was sent to Mr. Hoover:

It was indeed gratifying to receive your letter of September 13, addressed to Chairman Martin, commenting on the outstanding cooperation given by the Federal Reserve System to representatives of your organization in an attempt to identify ransom money from the Greenlease Kidnaping Case.

Your letter was read at a meeting of the Board of Governors this morning and at the Board's request a copy is being sent to each of the twelve Federal Reserve Banks.

Under date of August 25, 1955, Chairman Martin received a letter from Secretary of the Treasury Humphrey asking that consideration be

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given to an attached memorandum suggesting a liberalizing amendment of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, in respect to "restricted stock options" as defined in the Revenue Act of 1954. Copies of the letter and memorandum had been sent to the members of the Board along with a suggested reply. With the reply, it was proposed to send a memorandum analyzing the proposal and pointing out reasons why the Board had concluded on previous occasions that it would not be appropriate to amend Regulation U along the lines suggested.

There was a general discussion of the proposal, including the position taken by the Board with respect to similar proposals in the past, the purposes of Regulation U, and the difference in purpose between the credit provisions of that regulation and the tax definition of "restricted stock options". It was pointed out that the tax consequences would depend on subsequent events while Regulation U must be applied positively and definitively each time a bank makes a regulated loan, and that this illustrated the inapplicability in the field of credit regulation of a provision designed to meet an essentially different problem, that is, executive compensation. While some feeling was expressed that the proposed memorandum could have gone further in describing the reasons, including problems of administration, which would make it seem inappropriate to amend Regulation U for this particular purpose, the comment was made that

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suggestions of this nature had been presented to the Board periodically, that they probably would continue to be presented, and that if the proposed response raised further questions, the Secretary of the Treasury no doubt would take the matter up with the Board again.

At the conclusion of the discussion, unanimous approval was given to the memorandum in the form drafted and to a letter for the signature of Vice Chairman Balderston to the Secretary of the Treasury reading as follows:

Your letter of August 25, 1955, to Chairman Martin enclosed a memorandum regarding a suggestion that Regulation U be amended to permit banks to lend up to 75 per cent of the current market value of a stock, when the stock is purchased pursuant to "restricted stock options" as defined in the Revenue Act of 1954.

The suggestion has previously received careful consideration by the Board, but in view of your letter and memorandum it has been thoroughly re-examined and reconsidered. I know that the proponents of this suggestion feel very earnestly that it would be helpful in attracting and retaining key executives, and we certainly are not unmindful of that important consideration. However, as indicated in the attached memorandum, the Board has previously concluded that it would not be appropriate to amend the regulation along the lines proposed, and this was also the view of the Board upon carefully re-examining and reconsidering all aspects of the matter.

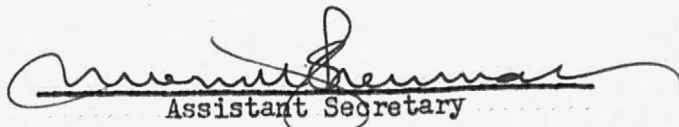
Reference was made to the meeting of the Board with the Federal Advisory Council tomorrow and it was agreed that the members of the Board would meet informally this afternoon to review, in preparation for the joint meeting, the memorandum which the Council was expected to submit by that time expressing its views on the topics to be discussed at tomorrow's meeting.

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

The meeting then adjourned.


Assistant Secretary