Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 21, 1955. The Board met in the Board Room at 9:30 a.m.

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

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

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 September 2, 1955, from Mr. Bethea, Director, Division of Administrative Services, recommending the reinstatement of George L. Spencer, Jr., who has been on military leave, as Clerk in that Division, with basic salary at the rate of $3,840 per annum, effective as of the date on which he enters upon the performance of his duties.

Approved unanimously.

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

For the reasons stated in your letter of August 29, 1955, the Board of Governors approves the payment of $4,554.51 to the Retirement System of the Federal Reserve Banks to reinstate the cancelled pension reserves for Miss Mary G. Pasquinelli, a former employee of your Bank.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. Moss E. Hulsey, Jr. as an officer of the Federal Reserve Bank of Dallas with the title of Chief Examiner, for the period September 15, 1955, through December 31, 1955, at the rate of $10,000 per annum which is the rate fixed by the Board of Directors as indicated in your letter of September 8, 1955.

Approved unanimously.

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

Reference is made to your letter of September 6, 1955, regarding the request of the Rhode Island Hospital Trust Company, Providence, Rhode Island, for an extension of six months of the time within which to establish a branch at 225-245 Dexter Street in the City of Pawtucket, Rhode Island.

After due consideration of all the information available the Board of Governors concurs in your recommendation and extends to April 2, 1956, the time within which the Rhode Island Hospital Trust Company, Providence, Rhode Island, may establish the branch at the aforementioned location in Pawtucket, Rhode Island, as originally approved in the letter of the Board of Governors dated January 12, 1955. Please advise the bank accordingly.

Approved unanimously.

Letter to the Board of Directors, State Bank of Albany, Albany, 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 by the State Bank of Albany, Albany, New York, of a branch at each of the following locations:

(1) 561 Warren Street, Hudson, New York
(2) Germantown, New York

in the quarters now occupied by the main office and Germantown branch, respectively, of The First National Bank and

Trust Company of Hudson, provided that (a) the merger of The First National Bank and Trust Company of Hudson, Hudson, New York, into State Bank of Albany, Albany, New York, is effected substantially in accordance with the Plan and Agreement of Merger dated July 21, 1955, (b) formal approval is obtained from the appropriate State authorities and (c) the merger and establishment of the branches are accomplished 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, Morgan & Cie. Incorporated, New York, New York, reading as follows:

There are enclosed two copies of the report of examination of the Paris Branch of Morgan & Cie. Incorporated made as of April 15, 1955, by examiners for the Board of Governors of the Federal Reserve System. The second copy of the report is for the information and files of the management at the Paris Branch.

After the report has been considered by your Board of Directors, please advise the Board of Governors regarding the actions taken or contemplated with respect to the comments, recommendations, and suggestions of the examiner, particularly as set forth on pages 8-10 of the report. Any comments you may care to make with regard to the operations of the branch as disclosed by the report will be appreciated.

Approved unanimously, with the understanding that copies of the report would be sent to the Federal Reserve Bank of New York and to the Superintendent of Banks of the State of New York.

Letter to Mr. Wayne, First Vice President, Federal Reserve Bank of Richmond, reading as follows:

This refers to your letter of September 12 regarding the penalty of $113.48 incurred by the First National Bank, Martinsville, Virginia, on a deficiency of 6.6 per cent in its required reserves for the semi-monthly period ended August 31, 1955.

It is noted that the deficiency resulted from the failure of the subject bank to request its correspondents by wire to transfer funds to its reserve account at the Reserve Bank; the bank by letter on August 19 instructed one correspondent to transfer $300,000 and another correspondent to transfer $200,000 to the subject bank's account at the Reserve Bank, and again on August 26 it instructed a correspondent by letter to transfer $200,000; because of the weekends the bank did not receive these credits until August 22 and August 29, respectively; and the bank has had an excellent reserve record, with only one deficiency in over six years.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalty in this case.

Approved unanimously.

Letters to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Reference is made to a letter from your office dated August 24, 1955, enclosing photostatic copies of an application to convert the Linden Trust Company, Linden, New Jersey, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

This bank has been a member of the Federal Reserve System since it was organized in 1926. Information in the files of the Board and that supplied by the Federal Reserve Bank of New York is favorable with respect to its financial history, adequacy of capital structure, earnings prospects, character of its management and service to the community. Therefore, the Board of Governors recommends approval of the application.

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

Reference is made to a letter from your office dated October 12, 1954, enclosing photostatic copies of an application to organize a national bank at Royal Oak, Michigan, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation made by an examiner for the Federal Reserve Bank of Chicago discloses generally favorable findings with respect to all the factors usually considered in connection with such proposals. The Board of Governors, therefore, recommends approval of the application.

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

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

There have been forwarded to you today under separate cover the indicated number of copies of the following forms, a copy of each of which is attached, for use of State member banks and their affiliates in submitting reports as of the next call date:

Number of copies	
	Form F. R. 105 (Call No. 137), Report of condition of State member banks.
	Form F. R. 105e (Revised May 1948), Publisher's copy of report of condition of State member banks.
	Form F. R. 105e-1 (Revised May 1948), Publisher's copy of report of condition of State member banks.
	Form F. R. 105e-2 (Revised February 1955), Publisher's copy supplement.
	Form F. R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.
	Form F. R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

All of the forms are the same as those used on June 30, 1955.

For condition report purposes, insured farm ownership loans made under the provisions of Title I of the Bankhead-Jones Farm Tenant Act as amended by Public Law 273, approved by the President on August 9, 1955, should be shown against item 6(a) in Schedule A as real estate loans secured by farm land; they are similar to the soil and water conservation loans that are also insured by the Farmers Home Administration. The Office of the Comptroller of the Currency has taken the same position on these loans in a letter to the Chief National Bank Examiners, and it is understood that the Federal Deposit Insurance Corporation will do so in its letters transmitting year-end call report forms.

Effective with the forthcoming call date, copies of forms F. R. 220, Report of Affiliate or Holding Company Affiliate, need no longer be forwarded to the Board; accordingly, State member banks need file only one copy of such reports hereafter. Inasmuch as more complete information on affiliates is available in reports of examination and the Reserve Banks edit these reports and check them against the published form F. R. 220a, no useful purpose is being served by forwarding copies to the Board.

Approved unanimously, with the understanding that the letters would be sent when the forms were printed.

Reference was made to a memorandum from Mr. Leonard dated September 13, 1955, which had been circulated to the members of the Board, concerning an informal note he had received from Mr. W. T. Heffelfinger, Fiscal Assistant Secretary of the Treasury, transmitting a draft of a proposed letter from the Secretary of the Treasury to the Speaker of the House of Representatives regarding a recommendation by the Comptroller General of the United States that the Federal Reserve Banks be authorized to verify and destroy unfit Federal Reserve notes. It was Mr. Heffelfinger's thought that appropriate members of the Board's staff might check the draft and give him any suggestions which they had with regard to it. Accordingly, there was attached to Mr. Leonard's memorandum a draft of a proposed reply for his signature offering various comments, principal among which was the suggestion that the wording of the draft of letter to the Speaker of the House of Representatives might convey the erroneous impression that the Board's attitude toward the recommendation was favorable, whereas the Board's letter to the Treasury of July 20, 1955, had a negative tone. The draft of letter to Mr. Heffelfinger would also suggest elimination from the proposed enabling amendment of a provision with respect to apportionment of the expenses incurred by the Federal Reserve Banks since it was felt that this matter would be of an administrative nature and inappropriate for legislation. The draft would further suggest that the proposed authorization "to verify and destroy unfit Federal Reserve notes retired from circulation" be changed so as to authorize the Reserve Banks "to cancel and destroy Federal Reserve notes unfit for circulation" in order to adhere to language similar to that already contained in the law with respect to the powers of the Comptroller of the Currency in this field. Mr. Leonard's memorandum said it was contemplated that at a later stage a draft of letter to the Speaker of the House would be transmitted formally to the Board for comment and that the purpose of circulating the proposed staff reply was to inform the members of the Board and to inquire whether they had any comments or suggestions.

At the request of the Board, Mr. Leonard discussed the recommendation, which was contained in the Comptroller General's Audit Report to the Congress concerning the Office of the Treasurer of the United States for the fiscal year 1954, and previously in his Audit Report for the fiscal year 1953. Mr. Leonard also said it was his understanding that there were differences of opinion within the Treasury Department concerning the matter and that the Under Secretary for Monetary Affairs might wish to send an affirmative recommendation to the House of Representatives.

In response to an inquiry by Governor Mills as to whether it would be appropriate to take the matter up at the staff level with the General Accounting Office for the purpose of explaining the Board's position, Governor Robertson stated that, like Mr. Leonard, he understood there was opposition to the Comptroller General's recommendation on the part of members of the Treasury staff and that in the absence of the introduction of a legislative proposal or a strong recommendation from the General Accounting Office on which the Treasury would like to have the Board express its views, he felt that intervention on the part of the Board was not necessary.

Mr. Leonard said that he concurred with the views expressed by Governor Robertson. He also commented that in the audit report the Comptroller General made a second recommendation, namely, that the Treasury confer with the Board of Governors with a view to eliminating the practice of cutting unfit Federal Reserve notes in half lengthwise before shipment to Washington and shipping each half separately. He said that this question had not yet been taken up with the Board's staff by the Treasury and that he hoped the matter would not be pursued.

No changes having been suggested in the draft of letter from Mr. Leonard to Mr. Heffelfinger, it was understood that the letter would be transmitted in the form in which it was circulated to the members of the Board.

Consideration was given to a memorandum from Mr. Vest dated September 16, 1955, which had been circulated to the members of the Board, concerning a request that he or one of the Board's Assistant General Counsel serve on the American Bar Association's Committee on National Banks. In the memorandum Mr. Vest stated that he would be glad to serve if the Board desired him to accept the invitation, but that inasmuch as the Committee would be expected to study bills introduced in the Congress affecting national banks and to review recommendations for legislation originating with various organizations, it occurred to him that occasions might arise where the Committee's viewpoint would be at variance with the views expressed by the Board on such matters.

The members of the Board expressed themselves as feeling that certain advantages would accrue through Mr. Vest's service on the Committee on National Banks, and that he could excuse himself from participation in the consideration of various legislative proposals if it appeared that any embarrassment to him or to the Board might be occasioned. However, there was no inclination to urge acceptance of the invitation and the matter was left to Mr. Vest to decide in his judgment whether he thought it advisable to serve on the Committee.

Mr. Leonard then withdrew and Mr. Thomas, Economic Adviser to the Board, entered the room.

Reference was made to a memorandum dated September 20, 1955, from Mr. Young, Director, and Miss Stockwell and Mr. Pawley, Economists, Division of Research and Statistics, outlining recent stock market developments. The memorandum, copies of which had been sent to the members of the Board, indicated that while stock prices had been moving up, the use of credit in financing stock market activity had tended to level off or decline. The memorandum also stated that there was a gap in the Board's information with respect to potentials for the use of credit to finance margin transactions due to the lack of data showing average margin percentages in existing margin accounts. The suggestion was made that the Board might wish to have its staff request the New York Stock Exchange to obtain information from its members on this subject.

In commenting on the memorandum, Mr. Young said that according to available evidence, the current margin requirement of 70 per cent apparently was effective in causing a leveling off in the volume of stock market credit. He went on to explain why it would seem desirable to pursue the suggestion in the memorandum that the New York Stock Exchange be asked to collect data relating to average percentages in margin accounts, pointing out that if the average margin should be running considerably less than 70 per cent that would indicate a large number of restricted accounts and little available buying power in margin accounts while if the majority of accounts were margined 70 per cent or better that would mean that there was unused buying power available that could be brought into play and create speculative activity. He also said that the Board's staff had talked to Stock Exchange representatives about collecting such information and that while the task would be somewhat burdensome, he believed that if the Board expressed an interest, the Stock Exchange would arrange to provide the data.

In a further statement, Mr. Young said there were indications that some credit to sustain the recent rise of prices in the stock market was being made available through avoidance of the Board's regulations. In response to a question by Governor Balderston, he said that there might be exploitation of loopholes in both Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Governor Balderston recalled that from time to time suggestions had been made by the Board's staff concerning a tightening of the provisions of Regulation U, and he suggested that the Board request the staff to review those suggestions and submit recommendations to the Board. He then commented that only recently he received a letter from a brokerage firm complaining about the fact that Regulation U does not cover bonds and debentures which are convertible into stock.

At this point in the discussion Governor Szymczak withdrew from the meeting to begin an out-of-town trip.

Governor Balderston said that following a recent informal discussion of margin requirements by the Board, he talked by telephone with Governor Vardaman, whose first reaction was to favor an increase to 80 per cent but who later indicated that he would prefer not to act at this time when his attention was called to the fact that brokers' loans had declined over the past several weeks. Governor Balderston said that it was his opinion, also, that action should not be taken at this time in the face of a decline in stock market credit. He felt, however, that the Board should continue to watch developments closely.

The discussion then reverted to the suggestion contained in the memorandum from Mr. Young, Miss Stockwell, and Mr. Pawley with respect to obtaining information on average margin percentages in existing margin accounts and it was the unanimous view of the members of the Board that a request should be made of the New York Stock Exchange for such information. It was also the unanimous view of the Board that the staff should review various methods of strengthening Regulation U and submit recommendations to the Board.

Messrs. Riefler and Thomas then withdrew and Mr. Hackley, Assistant General Counsel, entered the room.

At the meeting on September 7, 1955, the Board considered, in the light of comments by the Federal Reserve Banks and the Federal Advisory Council, the policy that should be followed in passing upon questions as to what constitutes indirect payment of interest on deposits. On the basis of that discussion, there had been sent to the members of the Board, with Mr. Hackley's memorandum dated September 19, 1955, copies of a draft of letter to the Presidents of the Federal Reserve Banks and the members of the Federal Advisory Council informing them concerning the policy understood to have been agreed upon at the meeting on September 7.

A question was raised by members of the Board with respect to language in the draft to the effect that the Board would have in mind the question of possible legislation on this subject, with a view to recommending at the appropriate time such changes in the law as might appear to be desirable and feasible. The view was expressed that persons reading the letter might conclude that the Board had in mind some specific proposal, and it was suggested that the wording of the letter be amended to indicate that while the Board might seek legislation at an appropriate time, no proposal was contemplated for the present.

A question also was raised with respect to sending the letter to the members of the Federal Advisory Council. It was felt that this might constitute a precedent which the Board would not want to follow on other occasions when it solicited the views of the Council on problems under consideration.

A further question concerned the policy to be followed with respect to hypothetical cases or cases involving a statement of a contemplated practice. It was the feeling of the Board that in cases where it appeared obvious that the practice would or would not conform to the law and the Board's Regulation Q, Payment of Interest on Deposits, a response might be given, but that a finding with respect to borderline cases normally would be deferred pending development of the facts through examination of the member bank or banks concerned.

At the conclusion of the discussion, it was understood that the letter would be redrafted to conform with the views expressed at this meeting and that the revised draft would be submitted to the Board for consideration.

At the meeting on September 19, 1955, consideration was given to the request of St. Joseph Valley Bank, Elkhart, Indiana, for permission to establish a branch at the intersection of East Jackson Boulevard and Elkhart Avenue, and it was decided to defer action on the matter until it could be ascertained whether the Bank's board of directors, at a meeting on September 8, 1955, approved the sale of common stock to provide additional capital funds of at least $200,000.

Receipt was reported of a copy of a letter dated September 8 from the president of the bank to the Federal Reserve Bank of Chicago stating that the directors of the institution had approved the sale of 10,000 shares of additional stock at $20 per share.

In the circumstances, unanimous approval was given to a letter to the Board of Directors of the St. Joseph Valley Bank reading as follows, for transmittal through the Federal Reserve Bank of Chicago:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by St. Joseph Valley Bank, Elkhart, Indiana, in the Easy Shopping Place on Elkhart Avenue approximately one-tenth of a mile north of the intersection of East Jackson Boulevard and Elkhart Avenue, Elkhart, Indiana, provided the branch is established within one year from the date of this letter.

We understand that, on September 8, 1955, you approved the sale of 10,000 shares of additional stock at $20.00 per share, and it is presumed that sale of this stock will be completed in the near future.

Messrs. Vest and Hackley then withdrew from the meeting and Messrs. Koch, Assistant Director, and Allen, Economist, Division of Research and Statistics, entered the room.

Prior to this meeting, there had been sent to the members of the Board copies of a memorandum dated September 20, 1955, from Messrs. Koch and Allen to Governor Shepardson attaching a questionnaire which the Agricultural Finance Section of the Department of Agriculture planned to use in obtaining financial information from banks for the Department's Annual Outlook Conference to be held in November 1955. The memorandum stated that in past years the Agricultural Finance Section had prepared its conference report partly on the basis of general credit information secured from the agricultural economists at the Federal Reserve Banks but that this year the Department proposed to secure the information by having its field representatives visit banks in selected counties, along with farmers and lenders other than banks. A memorandum to Mr. Allen from the Department of Agriculture stated that the Department intended to clear the questionnaire with the Bureau of the Budget and that suggestions would be appreciated. Messrs. Koch and Allen stated in their memorandum to the Board that they saw no important objection to it.

No objection was interposed by the members of the Board to the form of questionnaire or to the collection of information from selected banks on the limited scale envisaged. A question was raised, however, as to what it might be appropriate to say to the Department of Agriculture prior to submission of the questionnaire to the Bureau of the Budget.

> It was agreed that the response to the Department of Agriculture should be on an informal basis and that it should be in terms of indicating that if the Department submitted the questionnaire in its present form to the Budget Bureau and the Board's views were requested by that Bureau, the Board would not be inclined to interpose any objection.

Messrs. Young, Koch, and Allen then withdrew from the meeting and Messrs. Bethea, Director, and Kelleher, Assistant Director, Division of Administrative Services, were called into the room.

Reference was made to difficulties encountered with the acoustics in the Board Room and consideration was given to various methods of obtaining technical advice concerning improvement of the situation.

Mr. Bethea stated that several months ago the matter was mentioned to Mr. Persina, Consulting Architect to the Board, who explained that he was not an expert in acoustics and recommended Dr. Richard H. Bolt, of the firm of Bolt, Beranek & Newman, Inc., Cambridge, Massachusetts, as a person having an excellent reputation in the field. Mr. Bethea also said that it would be possible to obtain advice from the Bureau of Standards. He inquired whether it was the feeling of the Board that any changes should be made in such a way as not to disturb the present architecture and arrangement of the Board Room, and in response the members of the Board indicated that while it would be desirable if the acoustics and sound conditions could be improved with as little disturbance as possible to the present architecture and arrangement of the room, that should not be considered a requirement.

Following a further discussion, Governor Balderston suggested that Mr. Bethea be authorized to take steps looking toward the engagement of Dr. Bolt in a consulting capacity, that he also be authorized to solicit the advice of the Bureau of Standards, and that the Board approve such expenditures as might be necessary in connection with obtaining the services of Dr. Bolt and the Bureau of Standards.

These suggestions were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 20, 1955, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council on September 20, 1955, were approved unanimously.

The meeting then adjourned.

Assistant Secretary