

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 23, 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. Fauver, Assistant Secretary
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Hackley, Assistant General 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:

Memorandum dated September 14, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Joan N. Yamamoto, Statistical Assistant in that Division, be accepted, effective September 13, 1955.

Approved unanimously.

Memorandum dated September 20, 1955, from Mr. Thomas, Economic Adviser to the Board, requesting permission to accept an invitation from President Erickson of the Federal Reserve Bank of Boston to participate in a seminar for a group of Boston bankers on October 10, 1955; and requesting permission to attend the meeting of the Conference of Business Economists to be held in Philadelphia, Pennsylvania, on October 7 and 8, 1955.

Approved unanimously.

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

Reference is made to your letter of September 8, 1955, advising of the more liberal hospital and surgical coverage being made available at the Pittsburgh Branch.

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The Board of Governors interposes no objection to the assumption by the Federal Reserve Bank of Cleveland of the increased expense involved in connection with the adoption of the more liberal plan being offered as described in your letter.

Approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of September 14, 1955, the Board approves the appointments of William F. Fortunato and Richard J. Pfleging as assistant examiners for the Federal Reserve Bank of New York effective September 14, 1955. Please advise as to salary rates.

The Board also approves the designations of Ernest E. Blanchette, John N. Field, and Leonard A. Rein as special assistant examiners for the Federal Reserve Bank of New York effective September 14, 1955.

Approved unanimously.

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

This refers to your letter of September 13, regarding the penalties of \$303.20 incurred by the Hadley Falls Trust Company, Holyoke, Massachusetts, \$79.00 by the Whitinsville National Bank, Whitinsville, Massachusetts, and \$136.55 by the Clinton National Bank, Clinton, Connecticut, on deficiencies in their reserves for the semi-monthly period ended August 31, 1955.

It is noted that the deficiencies were caused by either failure of utilities, flooding of quarters, or delays in the mail due to the floods occurring the latter part of August in the District.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalties in these cases.

Approved unanimously.

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Letter to the Board of Directors, Potter Bank and Trust Company, Pittsburgh, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System hereby gives its consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the merger of Potter Bank and Trust Company, Pittsburgh, Pennsylvania, with Homewood Bank at Pittsburgh, Pittsburgh, Pennsylvania, and approves the establishment by the continuing bank of a branch at the present location of Homewood Bank at Pittsburgh (618 North Homewood Avenue, Pittsburgh, Pennsylvania), provided (a) the merger is carried out substantially in accordance with the merger plan submitted, (b) formal approval of the State authorities is obtained, and (c) the merger and establishment of the branch are effected within six months from the date of this letter.

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

Letter to the Board of Directors, Exchange Savings Bank, Mount Pleasant, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by the Exchange Savings Bank at 409 North Mission Street, Mount Pleasant, Michigan, provided the branch is established within one year from the date of this letter.

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

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

Your letter of September 8, 1955, indicates that you do not view with favor the suggestion made in the Board's letter of August 24, 1955, that another examination of The First Commercial Bank, Chicago, Illinois, take place sometime

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in the early fall of 1955. Your preference would be to examine the bank again shortly after the first of next year, although you state that you would make an immediate examination if information you obtain periodically were to indicate a deterioration in the member bank's capital position.

The Board is cognizant of the fact that the asset condition of the member bank appears to be relatively sound, and that its management has been cooperative in keeping you informed of the bank's condition. It would be the Board's preference, however, that this member bank be examined more frequently than once yearly until such time as its capital position has shown satisfactory improvement. While favorable progress in this direction has been made recently, there is obviously a need for further substantial improvement, and progress has been retarded to some extent by the substantial depreciation disclosed in the bank's security account.

In expressing a preference as to the frequency of examinations, the Board wishes to make it clear that this is purely a suggestion, and the choice of a date for the next examination is left to your judgment.

Approved unanimously.

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

Reference is made to your letter of August 18, 1955, submitting the request of State Bank of Anoka, Anoka, Minnesota, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an investment in bank premises in excess of the capital stock of the bank.

After considering all available information, the Board of Governors concurs in the Reserve Bank's recommendation and approves an additional investment of approximately \$65,000 in bank premises by State Bank of Anoka.

It is presumed that the member bank will reduce this investment on a planned and regular basis.

Approved unanimously.

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The following draft of letter to Mr. Robert L. Oars, Chairman of the Board, Associates Investment Company, South Bend, Indiana, which had been circulated to the members of the Board, was presented for consideration:

This refers to the request contained in your memorandum of August 19, 1955, on behalf of Associates Investment Company and Emmco Insurance Company, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors as to the status of Associates Investment Company and Emmco Insurance Company, both of South Bend, Indiana, as holding company affiliates of The Peru Trust Company, Peru, Indiana, a State member bank.

From the information submitted, the Board understands that Emmco Insurance Company, a wholly-owned subsidiary of Associates Investment Company, has acquired 95 per cent of the stock of The Peru Trust Company, Peru, Indiana; that Emmco Insurance Company and its wholly-owned subsidiary company, Excel Insurance Company, are engaged in the business of providing comprehensive, fire, theft, and collision insurance coverage on motor vehicles financed through Associates Investment Company; that Associates Investment Company and its subsidiaries are engaged primarily in specialized forms of financing, including the purchase of installment contracts from automobile dealers, wholesale financing extended to automobile dealers and distributors, industrial and commercial loans, and direct or personal loans; that Emmco Insurance Company owns very small amounts of stock in Chase Manhattan Bank, New York City, First National Bank of Boston, Massachusetts, and Irving Trust Company, New York City; that total investments in bank stocks represent about 1.2 per cent of Emmco Insurance Company's assets and less than one-tenth of one per cent of Associates Investment Company's assets; that the stock of The Peru Trust Company, Peru, Indiana, was acquired for investment purposes; and that neither Emmco Insurance Company nor Associates Investment Company directly or indirectly owns or controls any stock of, or manages or controls, any banking institution other than The Peru Trust

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Company, Peru, Indiana, except for the small amount of stock owned by Emmco Insurance Company in three other banks as above stated. It is also understood that neither Company has any intention of acquiring controlling shares in any other bank.

In view of these facts the Board has determined that Emmco Insurance Company and Associates Investment Company are not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, such companies are not deemed to be holding company affiliates except for the purposes of section 23A of the Federal Reserve Act and do not need a voting permit from the Board of Governors in order to vote the bank stocks which they own.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that either Emmco Insurance Company or Associates Investment Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

Governor Mills commented that this was the latest of several recent requests for similar determinations where banks had been acquired by organizations operating in fields not related to banking. While he felt that it was appropriate to grant the requested determinations under existing law, he said that the development of a trend toward acquisition of banks by nonbanking interests, particularly by corporations with the ability to accumulate large amounts of funds for investment, would deserve close study by the Board in the light of the fact that banking is a business vested with a public interest and there would seem to be

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a question whether the public interest is served by this type of transaction.

Governor Balderston stated that he shared the concern expressed by Governor Mills with respect to "captive" banks but also believed that the requested determinations were properly granted under the terms of the present law.

There followed some discussion of the Board's current policy with respect to so-called one-bank holding company cases and of the effects of pending bank holding company legislation. During this discussion, Governor Robertson stated that he shared fully the concern expressed by Governors Mills and Balderston and he reiterated his disagreement with the policy followed by the Board in respect to determinations under section 301 of the Banking Act of 1935. He felt, however, that an application of this policy to the case involving Associates Investment Company and Emmco Insurance Company clearly indicated that the requested determination should be granted.

Thereupon, the letter to Mr. Oare was approved unanimously, for transmittal through the Federal Reserve Bank of Chicago.

At the meeting of the Board on September 21, 1955, consideration was given to a draft of letter to the Presidents of all Federal Reserve Banks and to the members of the Federal Advisory Council regarding the policy of the Board in passing on questions as to whether various practices constitute an indirect payment of interest on deposits. It was

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decided at that time that no letter on this subject need be sent to the members of the Federal Advisory Council and that the letter to the Reserve Bank Presidents should be redrafted in the light of suggestions made by members of the Board. Accordingly, the following revised draft of letter had been circulated to the members of the Board prior to this meeting:

It will be recalled that in May of this year the Board requested the views and comments of the Presidents of the Federal Reserve Banks and of the Federal Advisory Council with respect to the problem of dealing with questions as to whether various practices constitute an indirect payment of interest on deposits under the law and the Board's Regulation Q. The background of this problem was discussed, and certain possible alternative approaches to the problem were indicated, in a memorandum which was sent to the Federal Reserve Banks and the Federal Advisory Council at that time.

As you know, it has been the Board's general policy for many years not to attempt to make detailed interpretations or rulings with respect to questions as to whether particular practices constitute an indirect payment of interest on deposits but rather to rely upon the cooperation and good faith of member banks in adapting their practices to conform to the spirit and purpose of the statutory provisions on the subject. After considering the views which have been expressed by the Presidents of the Federal Reserve Banks and the Federal Advisory Council, the Board has concluded that in general the policy which it has heretofore followed affords the most practicable means of dealing with questions of this kind and, accordingly, except as to questions involving obvious or flagrant cases or proposals, it will continue to be the Board's practice to refrain from ruling in specific cases of this kind unless the facts have been fully developed in the course of examination of the member bank involved.

In the light of some of the suggestions received, the Board will have in mind the question of possible legislation

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on this subject, although no such legislation is presently contemplated.

The letter was approved unanimously.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change, on the dates indicated, of the rates of discount and purchase in their existing schedules:

Atlanta	September 16
St. Louis	September 19
San Francisco	September 21
New York	September 22
Philadelphia	September 22
Cleveland	September 22
Richmond	September 22
Chicago	September 22
Minneapolis	September 22
Kansas City	September 22
Dallas	September 22

Approved unanimously.

There was presented a request from Miss Burr, Assistant Director, Division of Research and Statistics, for authority to travel to Norwalk, Connecticut, on September 30, 1955, to confer with Mr. Warren Chappell in connection with the restyling of the Federal Reserve Bulletin.

Approved unanimously.

There had been sent to the members of the Board copies of a letter dated September 17, 1955, from the Globe Travel Service, Chicago, Illinois, requesting that a German group consisting of about eight

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Persons be permitted to visit the Board's offices on Monday, October 24, 1955, for a program dealing with consumer credit.

Upon the recommendation of Governor Robertson, it was agreed unanimously that the group should be invited to visit the Board's offices for a suitable program and that a luncheon should be provided for the group if that appeared to be desirable in the light of developments.

There had been sent to the members of the Board copies of a memorandum from Mr. Hackley dated September 20, 1955, relating to a request from the House Committee on Interstate and Foreign Commerce for a report on Bill H. R. 5187, providing for the establishment of a Commission on Ethical Financial Practices. The memorandum outlined the composition of the proposed Commission and the areas which it would be authorized to investigate. A tentative draft of reply was submitted which would register neither approval nor disapproval. After outlining the Board's principal functions, it would state that the problems to which the bill related appeared to fall more specifically within the province of other agencies of the Government.

After the memorandum had been distributed, Governor Mills suggested an alternative draft of reply, and copies of the alternative draft were sent to the members of the Board with a second memorandum from Mr. Hackley, dated September 22, 1955. This draft would state that while the Board was sympathetic with the objectives of the bill, it had a

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question as to whether those objectives might not be more effectively and promptly accomplished by legislation designed to authorize agencies in whose fields the problem arose to take necessary action than by creation of a new commission with authority merely to make investigations and recommendations.

Mr. Hackley commented that the Board received a routine request for a report on H. R. 5187 in the spring of this year, but that according to word received at that time from the Clerk of the House Committee on Interstate and Foreign Commerce, the bill probably would not be taken up and the Board need not make a report unless future developments should change the situation. However, the Chairman of the Committee noted that the Board had not made a report and requested the Board's views in a letter dated September 19, 1955. Mr. Hackley said that it was difficult to report on a bill of this kind because its terms were extremely broad and vague. He went on to say that the Board apparently was not directly affected by the bill, although conceivably some of its functions, such as the fixing of margin requirements, might be regarded as falling within the purview of the bill.

Governor Mills said it was his impression that the original draft was not entirely responsive and that, inasmuch as some of the Board's functions possibly might be construed as falling within the scope of the investigations which would be made by the proposed Commission, he believed that a letter along the lines of the alternative draft might be more appropriate.

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The members of the Board present expressed a preference for the alternative draft, and the question then was raised as to whether it should be submitted to the Bureau of the Budget before being sent to the House Committee on Interstate and Foreign Commerce. On this point there was a difference of opinion, Governors Szymczak and Mills feeling that it was advisable for the Board to submit reports of this kind to the Budget Bureau to afford the Bureau the benefit of its views, along with those of other interested Government agencies, while Governors Balderston, Robertson, and Shepardson were inclined to feel that where a request for a report was received directly from a Congressional committee, it was sufficient to send the Bureau of the Budget a copy of the report submitted to the Congressional committee. Such a procedure, they thought, would keep the Bureau properly informed, while at the same time maintaining the relationship which they felt should exist between the Board and the Congress.

At the conclusion of the discussion, unanimous approval was given to a letter for the signature of Vice Chairman Balderston to the Honorable J. Percy Priest, Chairman, Committee on Interstate and Foreign Commerce, House of Representatives, reading as follows, with the understanding that a copy would be sent to the Bureau of the Budget with an appropriate letter of transmittal:

This is in response to your letter of September 19, 1955, requesting the Board's views with respect to the bill H. R. 5187, "For the Establishment of the Commission on Ethical Financial Practices".

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This bill would provide for the establishment of a Commission on Ethical Financial Practices to investigate and make recommendations to Congress with respect to financial practices with a view to protecting the productive capacity, the workers, and the shareholders in industries essential to the national defense.

As you know, the functions of the Board of Governors lie principally in the fields of credit and monetary regulation and bank supervision and, consequently, the problems to which the proposed bill relates would appear to fall more specifically within the province of other agencies of the Government.

The Board is sympathetic with the objectives of this bill. It raises the question, however, whether these objectives might not be more effectively and promptly accomplished by legislation designed to authorize agencies in whose fields the problem arises to take action necessary to deal with the problem, rather than by the creation of a new commission with authority merely to make investigations and recommendations.

Mr. Hackley then withdrew from the meeting and the following persons entered the room:

- Mr. Thomas, Economic Adviser to the Board
- Mr. Young, Director, Division of Research and Statistics
- Mr. Marget, Director, Division of International Finance
- Mr. Koch, Assistant Director, Division of Research and Statistics
- Mr. Molony, Special Assistant to the Board
- Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics
- Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance
- Mr. Furth, Chief, British Commonwealth and Western European Section, Division of International Finance

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Mr. Hersey, Chief, Special Studies Section,
Division of International Finance
Mr. Dahl, Economist, Division of International
Finance

Mr. Thomas presented a report on his recent trip to Norway, Sweden, Denmark, and Iceland, devoting most of his remarks to a review of economic developments in the respective countries and an evaluation of the monetary and credit policies being pursued. It was understood that Mr. Thomas was preparing a group of papers discussing these matters in more detail.

At the conclusion of Mr. Thomas' report, all of the members of the staff except Messrs. Sherman, Kenyon, Leonard, and Vest withdrew from the meeting.

Mr. Leonard said that the Federal Reserve Bank of Atlanta had reported an offer of the Nashville Housing Authority to convey to the Reserve Bank a small strip of property to the rear of the site of the new Nashville Branch building in consideration of the erection and construction by the Bank of a reinforced concrete retaining wall and the back filling and landscaping of an area behind the retaining wall. He commented that the branch property would require the construction of a retaining wall on the property line even if the Nashville Housing Authority were unwilling to convey the additional area and that in all the circumstances the acquisition of this piece of property seemed to be desirable.

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There was unanimous agreement that the Atlanta Reserve Bank should be advised that the Board interposed no objection to the acquisition of the property.

Mr. Leonard then withdrew from the meeting.

Reference was made to an application for membership in the Federal Reserve System made by The National Bank of Great Neck, Great Neck, New York, on behalf of Central Bank and Trust Company, Great Neck, New York, into which the national bank proposed to convert under provisions of the New York State banking law. The date set for the conversion was September 26, 1955, and the management of the national bank desired that the State bank become a member of the Federal Reserve System without any lapse of membership. There had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated September 19, 1955, discussing the application and recommending that it be approved.

Governor Robertson stated that before the Board acted on the matter he felt that there should be a check with the Office of the Comptroller of the Currency to ascertain whether there were any reasons not apparent from the material submitted to the Board which would indicate that the application should be given further consideration.

Governor Mills suggested that the matter be referred to Governor Robertson with power to act.

This suggestion was approved unanimously.

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Secretary's Note: Governor Robertson having ascertained from the Office of the Comptroller of the Currency that no requirements had been placed on The National Bank of Great Neck which had not been complied with and that there appeared to be no reasons why the conversion should be regarded unfavorably, a letter was sent through the Federal Reserve Bank of New York to the Board of Directors, The National Bank of Great Neck, Great Neck, New York, on September 23, 1955, stating that the Board of Governors approved the application made on behalf of the Central Bank and Trust Company, Great Neck, New York, for membership in the Federal Reserve System and for stock in the Federal Reserve Bank of New York, effective if and when the bank is authorized to commence business by the appropriate State authorities and subject to conditions numbered 1 and 2 in the Board's Regulation H, Membership of State Banking Institutions in the Federal Reserve System. The transmittal letter to the Federal Reserve Bank of New York contained the following paragraphs:

Before issuing stock in the Federal Reserve Bank of New York, you are requested to satisfy yourself that a charter has been issued and that the conditions of membership were accepted after the bank was incorporated. At such time your Counsel should review all steps taken in the organization of the bank and certified copies of all organization papers should be forwarded to the Board, together with a copy of Counsel's opinion.

It is noted that the bank's capital account is low in relation to the character of its assets but that its directors have submitted a signed commitment to the New York State Banking Department to increase capital funds by not less than \$500,000 at the next annual meeting of stockholders. In view of the contemplated investment in a new bank building and the expected substantial increase in deposits, it is felt that the matter of capital adequacy should be given particular attention.

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Reference was made to a memorandum dated September 21, 1955, from Mr. Chase, Assistant General Counsel, relating to a question raised by the Federal Reserve Bank of New York as to the eligibility of Mr. Clarence Francis for reelection as a Class B director of that Bank. The memorandum, copies of which had been sent to the members of the Board, stated that when Mr. Francis was last elected a director, he was Chairman of the Board and a director of General Foods Corporation; and that while he had since retired as an officer of that Corporation, he continued to serve actively as a director, not only of General Foods Corporation but also of several other corporations. It was the view of the New York Reserve Bank, in which the Legal Division concurred, that Mr. Francis would be eligible for reelection under the terms of section 4 of the Federal Reserve Act which provide that Class B directors shall be "actively engaged in their district in commerce, agriculture or some other industrial pursuit."

There was unanimous agreement that, on the basis of the information submitted, Mr. Francis would be eligible for reelection as a Class B director, and it was understood that the New York Reserve Bank would be advised informally of the Board's view.

In a memorandum dated September 22, 1955, copies of which had been sent to the members of the Board, Mr. Sherman reported receipt of a telephone call from Mr. Erickson, President of the Federal Reserve

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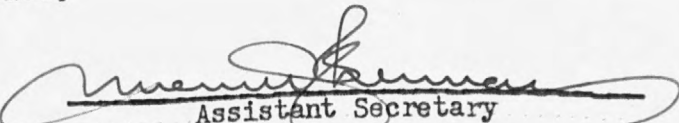
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Bank of Boston, who stated that Vice President Pitman had been asked to serve as a member of the Boston Regional Advisory Committee which had been formed to assist the Small Business Administration in connection with loan applications resulting from the recent flood. Mr. Erickson inquired whether the Board would have any objection to service by Mr. Pitman in this capacity during the temporary emergency period. The memorandum stated, by way of background, that under date of August 29, 1955, Mr. Hodgkinson, Chairman of the Boston Reserve Bank, wrote to Chairman Martin suggesting that the latter might contact the Small Business Administration with a view to offering the assistance of the Reserve Bank in connection with the flood disaster, and that on the basis of Chairman Martin's response the Reserve Bank proceeded to cooperate with the Small Business Administration. It was understood that the establishment of the Advisory Committee was at least partly at the initiative of the Reserve Bank's directors and that the Committee would include contractors, real estate men, and manufacturers in addition to bankers and a savings and loan association representative.

The members of the Board saw no objection to service by Vice President Pitman on the Regional Advisory Committee, and it was understood that President Erickson would be advised informally of the Board's opinion.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 21, 1955, were approved unanimously.

The meeting then adjourned.


Assistant Secretary