

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 27, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Connell, Chief, Reserve Bank Operations Section, Division of Bank Operations

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 16, 1955, from Mr. Bethea, Director, Division of Administrative Services, recommending an increase in the basic salary of Bruce L. Rabbitt, Painter in that Division, from \$3,780 to \$3,915 per annum, effective October 9, 1955.

Approved unanimously.

Memorandum dated September 21, 1955, from Mr. Sherman, Assistant Secretary of the Board, recommending that the resignation of Jean F. Stockwell, Records Clerk in the Office of the Secretary, be accepted effective September 30, 1955.

Approved unanimously.

Memorandum dated September 19, 1955, from Mr. Sloan, Director, Division of Examinations, recommending that an attached travel voucher from Francis D. Dargo, Assistant Federal Reserve Examiner in that Division,

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covering the period September 1-8, 1955, inclusive, be approved for payment as submitted. (The matter was submitted for approval pursuant to the Board's travel regulations because Mr. Dargo was on sick leave for 7-3/4 days during the period in question.)

Approved unanimously.

Memorandum dated September 21, 1955, from Mr. Sloan, Director, Division of Examinations, recommending that the Board authorize a reception on September 29, 1955, and a luncheon on September 30, 1955, both in the staff dining room, in connection with the fourth session of the School for Examiners of the Inter-Agency Bank Examination School.

Approved unanimously.

Letter to Mr. O'Keefe, Assistant Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of September 16, 1955, advising that Mr. Walter H. Rozell, Jr. has informed your Bank that developments in the State Bank of Ethiopia make it desirable for him to remain there about six weeks longer than originally planned, and that he has requested reemployment as an officer of the Bank, anticipating that his return will be delayed beyond January 20, 1956.

It is noted from your letter that the Board of Directors authorized that Mr. Rozell be assured of the Bank's willingness to reemploy him as an officer of the Bank upon his return on or before March 1, 1956, and that he has been so advised by Mr. Treiber.

Approved unanimously.

Letter to the Board of Directors, The Marine Trust Company of Western New York, 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 Marine Trust Company of Western New York, Buffalo, New York, in the village of Springville, New York, at the present location of The Citizens National Bank of Springville, provided that (a) the merger of The Citizens National Bank of Springville into The Marine Trust Company of Western New York, is effected substantially

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in accordance with the Plan of Merger dated August 11, 1955, (b) formal approval is obtained from appropriate State authorities and (c) the merger and establishment of the branch 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 Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the circumstances outlined in your letter of September 19, 1955, and the Reserve Bank's favorable recommendation, the Board of Governors further extends until November 1, 1955, the time within which The Provident Savings Bank and Trust Company, Cincinnati, Ohio, may establish a branch at the southeast corner of Colerain Avenue and Galbraith Road, Hamilton County, Ohio.

Approved unanimously.

Letter to the Board of Directors, The Hamilton National Bank of Johnson City, Johnson City, Tennessee, 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 trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, 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 Tennessee. The exercise of these powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System. The specific authorization granted on February 16, 1955, to act as trustee and registrar of stocks and bonds of the Volunteer Natural Gas Company, Johnson City, Tennessee, is now contained in the general fiduciary powers herein authorized.

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A formal certificate indicating the fiduciary powers which The Hamilton National Bank of Johnson City is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, Industrial State Bank of Kalamazoo, Kalamazoo, 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 at the intersection of State Highway M-96 and River Street in the Village of Comstock, Comstock Township, Kalamazoo County, Michigan, by the Industrial State Bank of Kalamazoo, provided the branch is established within one year from the date of this letter.

It is understood that as the result of a conference with the Federal Reserve Bank of Chicago you have agreed to sell sufficient additional common stock to provide not less than \$250,000 of new capital funds. The matter of the adequacy of your capital structure is one which should receive your continued close attention, and all appropriate action should be taken to improve your capital position and maintain a more acceptable relationship between capital funds and loans, fixed assets, and other risk assets.

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

Letters to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

Referring to your letter of September 13, 1955, it is noted Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, has been unable to open its branch in Dixie Plaza under the approval granted by the Board on February 25, 1955, because of delay in construction of the building it was intended to occupy. You state the management has been offered another building in the shopping center and now requests permission to open and operate in these quarters on a temporary basis until such time as its permanent quarters

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are completed; also that the Commissioner of the State Banking Department has no objection to this temporary arrangement.

In the circumstances, the Board concurs in your favorable recommendation and will interpose no objection to the establishment of the Dixie Plaza branch in temporary quarters located in the same shopping center as its intended permanent quarters. It is understood the temporary branch will be opened prior to the expiration of nine months from the date of the Board's original approval. Please advise the trust company accordingly.

Your comments are noted with respect to reinstatement of the trust company's application to establish a branch in the Preston Plaza Shopping Center, and your plans for conducting another field investigation of the situation before submitting the matter to the Board for further consideration.

Reference is made to your letter of September 9, 1955, submitting with a favorable recommendation a request of the Lemay Bank and Trust Company, Lemay, Missouri, for permission under section 24A of the Federal Reserve Act to invest an estimated \$53,186 for the purpose of enlarging its present banking premises.

The Board has given consideration to the asset condition, management, earnings, capital structure, and physical needs of the Lemay Bank and Trust Company and approves the investment of not to exceed \$54,000 for the proposed building program. It is understood the trust company is giving consideration to increasing and rearranging its capital structure and hopes and expects to work out a plan to accomplish this in the not too distant future.

Approved unanimously.

Letter to Mr. L. A. Jennings, Deputy Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Receipt is acknowledged of your letter of September 8, 1955 regarding a question raised by counsel for the Mutual

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National Bank of Chicago regarding the exception contained in paragraph 4 of section 8 of the Clayton Act and section 2(d)(4) of the Board's Regulation L, which makes the prohibition against interlocking directorates not applicable in cases where more than 50 per cent of the common stock of the two banks is owned directly or indirectly by the same persons. You ask for the Board's views on the applicability of this exception in cases where the national bank holds its own stock as sole trustee, in view of the provision in section 5144 of the Revised Statutes which prohibits a national bank which holds its own stock as sole trustee from voting such stock in the election of directors,

". . . unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted."

The Board's files do not indicate that this precise question has ever been considered by it or that a case has ever been presented to the Board which turned on the question whether shares of its own stock held by a national bank should be included in determining whether or not the requisite 50 per cent was "owned" by the same shareholders.

Some of the cases which might arise in this connection would present little difficulty as, for example, a case where the national bank owns 60 per cent of its own stock and 60 per cent of the stock of the other bank in a trust where the trust instrument provides the manner in which the donor or beneficiary shall direct the trustee to vote, and such directions are in fact given with respect to the stock of both banks. However, in another possible type of case, where the trust instrument makes no provision for the voting of the stock, or where it does make such provision but such direction is not given with respect to the stock of one or the other or both of the banks, a very difficult question of statutory interpretation might be presented, assuming that on analysis it appeared that the decision actually turned on the question whether the shares held in the trust were "owned" by the national bank within the meaning of the Clayton Act. There are, of course, a number of other possible combinations of facts which might present different questions under these statutory provisions.

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In the circumstances, the Board does not feel that it should attempt to express an opinion on the various hypothetical questions suggested by your correspondent, but believes that it would be preferable to undertake a consideration of the problem only after receiving full and specific information as to the facts of the particular case.

Approved unanimously.

Letter to Mr. William Leighton, 43 West 74th Street, New York, New York, reading as follows:

Receipt is acknowledged of the document you submitted under date of September 6, 1955, captioned "William Leighton, Petitioner v. American Express Company, Respondent", in which you request that the Board take certain action with respect to American Express Company under section 25(a) of the Federal Reserve Act (12 U.S.C. §611, et seq.).

Your petition is apparently based upon the view that international financial operations may not lawfully be conducted except by a corporation organized under section 25(a) of the Federal Reserve Act and that the Board of Governors may require an institution which may be so engaged to become a corporation under that Act. This, however, is not the effect of section 25(a). Perhaps this will become clear through the following comments on the several requests stated on the last page of your petition. However, the Board will afford you an opportunity to submit any additional information or views that you may care to express.

With respect to your first request, your attention is invited to the fact that section 25(a) of the Federal Reserve Act does not require but merely permits persons to organize corporations under that section. It provides: "Corporations to be organized for the purpose of engaging in international or foreign banking * * * may be formed * * *"; and provides further that, upon making and filing of articles of association and an organization certificate "and after the Board of Governors of the Federal Reserve System has approved the same and issued a permit to begin business," the association shall become and be a body corporate. American Express Company has not made or filed articles of association or an organization certificate under section 25(a). Consequently there has been no occasion for the Board of Governors either to approve or disapprove any such documents or to consider the issuance of a permit to the American Express Company pursuant to section 25(a).

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With respect to your request "(a)" that the Board "order respondent to seek conversion into a Federal corporation as required by" section 25(a) (12 U.S.C. §629), it should be noted that that portion of section 25(a) provides: "Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States * * * may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Board of Governors of the Federal Reserve System, be converted into a Federal corporation of the kind authorized by this section. * * * Provided, however, That said conversion shall not be in contravention of the State law. * * *" This provision also is permissive in character and does not require a State institution to convert into a Federal corporation nor authorize the Board to require such a conversion. The Board is not aware of any provision of law which would require any institution to seek to convert pursuant to section 25(a).

With respect to your request "(b)", which is that the Board "make findings of fact and state conclusions of law whether respondent's practices in its foreign banking business should not be enjoined as unfair, deceptive and fraudulent", the Board does not know of any provision of law which would authorize it to issue such an injunction, or to make findings and state conclusions as a possible basis for the issuance of such an injunction by some other agency or by a court.

Similarly, with respect to your request "(c)", the Board knows of no statute authorizing it to order American Express Company to cease and desist from engaging in foreign banking transactions or in "abetting the sale of its travelers checks within the United States."

With respect to your request "(d)", the Board, of course, could not make a stipulation in a permit issued to American Express Company under section 25(a) unless it were in a position legally to issue such a permit, which it is not. The Board has received no application from or on behalf of American Express Company to organize under section 25(a) and, as indicated above, knows of no provision of law that would authorize it to require American Express Company to make such application.

As stated above, however, you may submit to the Board any additional information or views in this matter that you may desire.

Approved unanimously.

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There was presented a request from Mr. Myrick, Assistant Director, Division of Bank Operations, for authority to travel to New York, New York, during the period October 5-7, 1955, to attend a meeting of the Presidents' Conference Subcommittee on Destruction of Records.

Approved unanimously.

Reference was made to a memorandum from Mr. Leonard dated September 22, 1955, which had been circulated to the members of the Board, regarding revised preliminary plans and specifications for a new building for the El Paso Branch. According to advice received from the Federal Reserve Bank of Dallas, these plans had been approved by the head office and El Paso Branch directors. Mr. Leonard's memorandum discussed revisions made in the original design as the result of questions raised by Mr. Persina, Consulting Architect to the Board, by the Reserve Bank's consulting architects, who designed the new building for the San Antonio Branch, and by the Dallas architect working on plans for an addition to the head office building. It stated that the revised proposal now submitted was considered by Mr. Persina to be a sound and efficient one, although he favored modification of the entrance to bring it into better proportion to the building. Since the estimated cost of "building proper" appeared to be reasonable, the memorandum proposed sending a telegram to the Reserve Bank which would authorize preparation of detailed plans and specifications but suggest restudying the design for the entrance.

At the request of the Board, Mr. Leonard made a statement concerning the revised plans and specifications during which he said that he had

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discussed them with Governor Shepardson, who favored making a suggestion to the Dallas Bank that the entrance design be restudied. In response to a question by Governor Vardaman, Mr. Leonard said that the branch directors had participated in the planning of the new building and that they were understood to be pleased with the design now submitted.

Thereupon, unanimous approval was given to a telegram to Mr. Irons, President, Federal Reserve Bank of Dallas, reading as follows:

Reurtel September 16. Board authorizes preparation of detailed plans and specifications for a new building for the El Paso Branch on basis of preliminary plans and specifications referred to in Austin's letter of September 2.

The entrance seems somewhat overemphasized in the plans and Board strongly suggests consideration be given to a re-study of this phase. Decision, however, as to whether that be done rests with the Bank.

Prior to this meeting, there had been sent to the members of the Board copies of a draft of letter to the Presidents of all Federal Reserve Banks reading as follows:

The replies to the Board's letter of July 29, 1955 requesting the volume of credit extended to real estate mortgage lenders by weekly reporting member banks were summarized in a statement for the press dated September 8; with revisions in some figures, the summary appears in the September issue of the Federal Reserve Bulletin, page 980. Enclosed is a memorandum prepared for the Board to supply additional detail on the subject.

One of the items requested in the Board's letter, but not mentioned in the press statement, was the manner of loan classification being used by the various banks in reporting the amounts in Schedule A of the call report and in the weekly report form. It was realized that misclassifications were fairly common, but the size was larger than expected. For all weekly reporting member banks the misclassification of loans to mortgage companies,

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which should be classified as commercial and industrial loans, totaled \$371 million, of which \$300 million had been classified as real estate loans. The misclassification of real estate mortgage loans purchased under resale agreements, which should be classified as real estate loans, amounted to \$27 million, of which \$23 million was misclassified as commercial and industrial. Although loans to insurance companies and to savings and loan associations should be classified as "all other", \$40 million was misclassified. The net effect of these revisions, applied to the weekly reporting member bank figures of August 10, 1955, is as follows:

	<u>Series as reported</u>	<u>Revision</u>	<u>Revised figures</u>
Commercial and industrial loans	23,754	+ 331	24,085
Real estate loans	8,028	- 294	7,734
Other loans	9,364	- 37	9,327

These revisions are so large that they should not be made piece-meal, and inquiring Reserve Banks have been so advised. It would seem impracticable either to attempt to obtain revisions of back data, or to request that existing loans be classified as they have in the past but that new loans be classified correctly. In the circumstances, it seems advisable that the Reserve Banks should request revisions of the weekly reports at one date, the second Wednesday following the date of this letter.

Efforts should be made to obtain figures for the items affected at that date on both the new and old basis, in order that the press statements and related statistics may be appropriately footnoted to indicate the amount of the revision based on data collected and forwarded by the Reserve Banks. Fortunately, the loans misclassified are concentrated in relatively few banks, and your Bank may overlook at this time the smaller misclassifications that aggregate less than a million dollars in your District.

It is suggested that the member banks concerned be advised that the requested reclassifications are consistent with positions taken by both the Office of the Comptroller of the Currency and the Board.

Following a discussion, during which Mr. Young stated, in response to a question by Governor Mills, that the errors in classification referred to in the draft of letter were corrected prior to publication of the Federal Reserve Bulletin article, the letter was approved unanimously in the form submitted.

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Messrs. Leonard, Vest, and Connell then withdrew from the meeting.

Governor Vardaman suggested that the staff be authorized to look into the possibility of installing a telephone hook-up which would permit the Board to have telephone conferences with the twelve Federal Reserve Banks, since the mechanism now installed in the Board Room did not appear to be adequate for that purpose. He also suggested that the conference equipment might be installed in Room 2019 or at some other appropriate location on the second floor of the building.

During a discussion of Governor Vardaman's suggestion, Governor Robertson referred to the authorization given at the meeting on September 21, 1955, for the obtaining of technical advice looking toward an improvement of the acoustics in the Board Room. He felt that consideration might be given to the matter mentioned by Governor Vardaman in conjunction with the study of acoustical features of the room.

The other members of the Board expressed agreement with the procedure suggested by Governor Robertson.

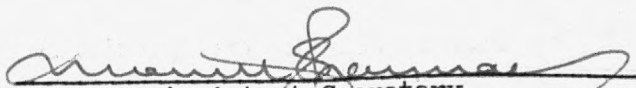
Mr. Young stated that if this morning's rally in the stock market were followed by further declines later today or tomorrow, the Board might wish to consider sending a telegram to the Federal Reserve Banks requesting them to submit, on the basis of information available to them, an assessment of the impact of the market decline in the respective Federal Reserve districts.

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In a discussion of the situation, it was noted that the Reserve Bank Presidents would be in Washington for the meetings of the Presidents' Conference and the Federal Open Market Committee on October 3 and 4, and that they might be able to supply sufficient information of the type mentioned by Mr. Young. It was agreed that no decision should be made at this time to send such a request as Mr. Young proposed.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 23, 1955, were approved unanimously.

The meeting then adjourned.


Assistant Secretary

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