

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 28, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Chase, Assistant General Counsel
 Mr. Molony, Special Assistant to the Board

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:

Letter to Mr. Galvin, Chief Examiner, Federal Reserve Bank of San Francisco, reading as follows:

The Board of Governors of the Federal Reserve System has considered the recommendation of your Bank, contained in your letter of September 14, 1955, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Bank of Northridge, Los Angeles (Northridge), California, to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

Please advise the bank of the Board's action in this matter, calling attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Approved unanimously.

9/28/55

-2-

Letter for the signature of Vice Chairman Balderston to Mr. Raymond T. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, reading as follows:

In Chairman Martin's absence I am replying to your recent letter regarding the possibility of the Board accepting central responsibility for an improved program of saving statistics. The confidence in the quality of our research and statistical work implied by your inquiry is highly gratifying to us.

We are acutely conscious of the need for adequate statistics in the saving field as a basis both for our own economic analyses and policy determinations and for the economic analyses of others. Consequently, your suggestion for expanding our work in this field is being given very serious consideration. It seems clear, however, that for us to assume central responsibility for saving statistics would carry with it a commitment to increase our research expenditures. How much expansion might be necessary, whether we are in a position staff-wise to take on this responsibility, and other questions of this sort will need to be explored and discussed among ourselves at some length before we will be able to give you a definite answer. We would not wish to indicate a willingness to accept responsibility for the saving statistics program unless we felt we could make, or look forward to making, some real improvement in the quality of available data.

Over the next few weeks the Board's staff will explore the implications of your suggestion and we shall then be in a position to give you a more definite reaction. Perhaps we can arrange a luncheon discussion of the problem shortly after your return from your European trip.

Approved unanimously.

Reference was made to correspondence with the Federal Reserve Bank of New York regarding the applicability of section 32 of the Banking Act of 1933 to the service of Mr. Howard K. Halligan, a partner of C. J. Lawrence & Sons, New York City, and a vice president of C. J. Lawrence Securities Corporation, and of Mr. Jerome C. Eppler, an employee of

9/28/55

-3-

C. J. Lawrence & Sons, as directors of member banks. It appeared that the partnership (C. J. Lawrence & Sons) was not primarily engaged in business described in section 32; that the Corporation was a small organization having a total gross income of less than \$14,000 in 1954; but that in 1954 the Corporation derived 41.5 per cent of its income from an operation of the kind described in section 32 and an additional 18.8 per cent of its income from an operation as to which the facts were not clear but which might also have been of the kind described in section 32. It was understood that the general partners of C. J. Lawrence & Sons were also the officers and stockholders of C. J. Lawrence Securities Corporation. According to a representative of the Corporation, it was not anticipated that the Corporation would have further business of the kind described in section 32.

There had been circulated to the members of the Board a draft of letter to the New York Reserve Bank which would state that the Board was deferring a definite opinion as to the applicability of section 32 until the Reserve Bank had reviewed the matter early in 1956 on the basis of the 1955 experience of the partnership and the Corporation. When the file was in circulation, Governors Mills and Balderston inquired, in an attached note, whether a decision that section 32 was not applicable could not be made on the basis of the data submitted by the Federal Reserve Bank of New York.

9/28/55

-4-

Governor Mills said that the information submitted by the Reserve Bank appeared to represent the Bank's review of the case based on operations for the year 1954, and he questioned whether it was necessary to defer an opinion pending a similar review covering the year 1955.

Governor Balderston called attention to the small amount of business transacted by C. J. Lawrence Securities Corporation and stated that from the public relations viewpoint there was something to be said for clearing the matter if that could be done on a satisfactory basis.

Messrs. Solomon and Chase then reviewed the facts of the case and pointed out that in view of the large percentage of total income derived by the Corporation in 1954 from business of the type described in section 32, it would be difficult as a legal matter to hold that during 1954 the Corporation was not primarily engaged in business subject to that section, even though its operations were not extensive. They also brought out that while a representative of the Corporation had indicated that the Corporation probably would not engage in additional operations of the kind which produced about 40 per cent of its total income in 1954, there was no firm commitment to that effect. Therefore, they felt that the Board would be in a better position to reach a decision when the 1955 operations were reviewed. In the meantime, no harm apparently would be done because Messrs. Halligan and Eppler would not be forced to resign as directors of the member banks on whose boards they now serve.

Governor Robertson said that his reasoning was along the lines of that expressed by Messrs. Solomon and Chase, that if any harm would

9/28/55

-5-

result from deferring action he would agree with Governors Mills and Balderston, but that since postponement of a decision would not affect the existing relationships, it appeared preferable for the Board to ascertain what transactions took place in 1955.

Governor Mills commented that Messrs. Halligan and Eppler were, of course, aware that a question had been raised, that the member banks involved perhaps were also aware of the matter, that until the situation was resolved some doubt might be cast on the propriety of the two individuals continuing as directors of the respective member banks, and that postponement of a decision might be looked upon as indecisiveness.

Governor Vardaman said that he would be willing to go along with whatever decision was reached by a majority of the Board, although he was somewhat inclined to share the point of view expressed by Governor Mills, particularly in the light of advice from the Corporation that its 1954 business of a type subject to section 32 was of a nonrecurring nature. He pointed out that the New York Reserve Bank could be asked to watch the situation and report on developments.

Mr. Solomon then made a further statement in which he suggested that the Legal Division be permitted to submit another draft of letter which would take into consideration the views expressed at this meeting, and this suggestion was approved.

Mr. Chase then withdrew from the meeting.

9/28/55

-6-

Reference was made (1) to the request of Bank of Encino, Los Angeles (Encino), California, for permission to establish a branch in the Sherman Oaks section of Los Angeles, and (2) a request of California Bank, Los Angeles, California, that the Board reconsider its application to establish a branch in Fullerton, California.

In the Bank of Encino case, the State banking authorities approved the application provided \$350,000 of additional capital was obtained prior to the establishment of the branch and provided the branch was established within a defined area. The Federal Reserve Bank of San Francisco recommended unfavorably, as did the Board's Division of Examinations, principally on the grounds that the community was rather fully developed, two branches of large banks were now situated in the area, and it seemed doubtful whether the smaller institution could obtain enough business to assure a profitable operation. When the matter first came before the Board at the meeting on September 9, 1955, action was deferred at the request of Governor Robertson, who then asked the Division of Examinations to make a further analysis of the case. This was done, and in a memorandum dated September 14 the Division set forth reasons why it continued to feel that the unfavorable recommendation was justified. When the file was recirculated, Governor Robertson attached a note recommending approval of the branch on the grounds that the applicant was a small bank willing to compete against two larger institutions and that it would afford service to people desiring the more personal relationship available at a smaller institution.

9/28/55

-7-

He also pointed to the fact that the two existing branches in Sherman Oaks had deposits totaling \$23,000,000.

The application of California Bank was denied by the Board on July 14, 1955, on the grounds that sufficient banking facilities were available in the Fullerton area. Subsequently, Mr. Frank L. King, President of California Bank, wrote to the Board under date of July 27 presenting information which he felt justified reconsideration of the application. A letter supporting the application also was received from Mr. William A. Burkett, Superintendent of Banks for California, under date of August 23, 1955, but the Federal Reserve Bank of San Francisco, which recommended approval in submitting the original application, transmitted the request for reconsideration without recommendation. The Board's Division of Examinations, in a memorandum dated September 13, recommended that the application be approved. When the file was in circulation, Governor Robertson attached a memorandum recommending that the Board reaffirm its earlier decision because there was already keen banking competition in the area, with three banking offices for a population of about 30,000. The fact that the applicant was a large institution able to take care of itself did not appeal to him as a controlling factor, and he pointed out that the applicant institution was interested in expansion rather than a move to take care of its present customers.

In commenting concerning the Bank of Encino application, Governor Robertson stated this was a situation where he would not be inclined to

9/28/55

-8-

permit a large bank to establish a branch, but where he would be reluctant to refuse a smaller institution which was aware of the risk involved and wished to compete against larger banks.

Governor Vardaman said he agreed that the application should be approved, but not on the basis stated by Governor Robertson since he felt that the same general principles applied to all banks regardless of size. Instead, his favorable conclusion was based on the theory that a sound bank with good management should be permitted to enter a territory to serve present or prospective customers if it had appraised the risk carefully and had decided that it wished to invest its money in the branch operation.

Mr. Sloan, who was then called upon for comment, summarized the reasons underlying the recommendations of the Division of Examinations. As to the Bank of Encino application, he pointed out that Sherman Oaks is a well developed community, that no additional banking facilities would appear to be needed, and that whatever business Bank of Encino could obtain would have to be taken away from the existing banks or obtained from outside the area. Turning to the Fullerton case, he said that the area was expanding rapidly and that, although the present facilities might be adequate at this time, further expansion of the type envisaged would create a need for additional banking offices. He also said that Fullerton was now in effect a suburb of metropolitan Los Angeles and the Division of Examinations had concluded that California Bank was entitled to compete for a share of the business in this expanding community.

9/28/55

-9-

Regarding the Sherman Oaks case, Governor Mills pointed out that Bank of Encino was willing to marshall the necessary capital to establish a branch and to accept the risk of operating in the face of competition of larger institutions. Since no information was available to form a definite opinion that the branch would not be successful and since the establishment of the branch would not seem to endanger the safety of the bank's depositors, he felt that the Board should resolve any doubt in favor of the small institution.

Governor Balderston supported this point of view. He also noted that Sherman Oaks is not a deteriorating community and that many of the best banking locations in the State of California have been preempted by large banks.

Governor Szymczak stated that he also would favor approving Bank of Encino's application.

Turning to the Fullerton case, Governor Robertson said that the situation was almost exactly the opposite of the Sherman Oaks case since California Bank was a large institution, well operated and with good management, which desired to go into an area of 30,000 population already covered by three other banks and by additional near-by banking facilities. While the Fullerton area had grown appreciably in the last few years and it appeared that the growth might continue, California Bank was understood to derive little business from that area at present and seemed to be thinking in terms of providing additional competition, a move which Governor Robertson

9/28/55

-10-

felt might lead to serious consequences. With regard to the recent approval by the Comptroller of the Currency of a branch of Bank of America National Trust & Savings Association, he pointed out that this branch would be located about 2-1/2 miles from downtown Fullerton and that apparently it would not draw its business from the downtown area. In substance, he felt that to approve the California Bank's application would seem to indicate that there were no limits on the amount of competition that the Board was willing to permit in a community. He suggested that the line should be drawn at the point where there was adequate coverage of present banking needs.

Governor Mills agreed that if unbridled branch competition were permitted among larger banks there would be no end to it. On the other hand, he found that the history of banking in California, and presumably in other areas, showed that branch systems would expand and contract and that due weight should be given to the judgment reached by the management of the banks. Here, he said, was a case of a large, strong bank which could afford to run the risk involved in expanding its services, and if the branch operation did not prove profitable, it no doubt would be terminated. Since Fullerton now appeared to be actually a part of greater Los Angeles, he felt that there was as much reason to allow California Bank to establish an additional branch there as to open a branch in the center of Los Angeles which would compete with other banks situated in the same neighborhood.

9/28/55

-11-

Governor Vardaman said that his thinking on this application was along the lines stated by Governor Mills, that the Board must place some faith in judgments made by the people willing to invest their funds, that if a branch was not successful, it probably would be closed, and that in all the circumstances he would be inclined to follow the local judgment in the absence of definite evidence that such judgment was erroneous.

Governor Robertson then made a further statement in which he called attention to the understanding among the bank supervisory agencies concerning the establishment of priority in connection with branch applications and stated that the Board's approval of this application might result in the granting of branches for national banks at locations in the immediate neighborhood of State banks or their branches. This, he pointed out, could contribute to an overbanked situation and a weakening of the status of independent banks. At the request of Governor Balderston, he reviewed the sequence in which applications were filed earlier this year for branches in Fullerton, citing particularly the fact that the California Bank's application was filed subsequent to that of a national bank in San Diego whose request was granted by the Comptroller of the Currency. He reiterated his opinion that the subsequent granting of the application by Bank of America N. T. & S. A. was not pertinent to consideration of California Bank's application since the Bank of America branch would be situated in an outlying shopping area.

9/28/55

-12-

Following further discussion, unanimous approval was given to a letter to the Board of Directors, Bank of Encino, Los Angeles (Encino), California, in the following form, for transmittal through the Federal Reserve Bank of San Francisco:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by Bank of Encino in the vicinity of the intersection of Ventura and Van Nuys Boulevards, Sherman Oaks, Los Angeles County, California, provided the branch is established within one year from the date of this letter.

It is noted that capital funds of the bank are to be increased by not less than \$350,000 through the sale of additional capital stock and that the branch is to be established within three blocks of the intersection of Ventura and Van Nuys Boulevards.

Approval also was given to a letter in the following form to Mr. Frank L. King, President, California Bank, Los Angeles, California, for transmittal through the San Francisco Reserve Bank, Governors Balderston, Szymczak, and Robertson voting "aye" and Governors Vardaman and Mills voting "no":

Reference is made to your letter of July 27, 1955, submitted through the Federal Reserve Bank of San Francisco, requesting that the Board reconsider its decision with respect to the application of California Bank for permission to establish a branch in Fullerton, California.

The Board of Governors has given consideration to the information contained in your letter as well as all other information available on this proposal and has concluded that it would not be justified in changing the decision as outlined in its letter to your board of directors on July 14, 1955.

By the same vote, approval was given to a letter to the Honorable

9/28/55

-13-

William A. Burkett, Superintendent of Banks, State Banking Department, San Francisco, California, with the understanding that a copy would be sent to the Federal Reserve Bank of San Francisco:

This is in reply to your letter of August 23, 1955, relative to the application of California Bank, Los Angeles, California, for permission to establish a branch in Fullerton, California.

At the request of California Bank, the Board has reconsidered the application on the basis of all relevant information, including that contained in your letter. The Board has concluded, however, that it would not be justified in changing its original decision, and it has so informed the applicant institution.

Your interest in this application and the information furnished regarding it are appreciated.

During the foregoing discussion Messrs. Riefler, Assistant to the Chairman, and Thomas, Economic Adviser to the Board, entered the room.

Reference was made to a request from the Comptroller of the Currency for a recommendation as to whether an application to organize a national bank at Smithtown, New York, should be approved. On the basis of an investigation of the application, the Federal Reserve Bank of New York recommended unfavorably, principally because of lack of evidence that the area was in need of additional banking facilities at this time. A draft of letter to the Comptroller of the Currency reflecting the recommendation of the New York Bank had been prepared and had been circulated

9/28/55

-14-

to the members of the Board. When the file was in circulation, Governor Robertson attached a memorandum in which he stated that he would favor recommending approval of the application in accordance with the principle of permitting competition to be created in communities where there is only one existing bank and where there is no evidence that the community cannot support two commercial banks.

Governor Robertson commented on the application and cited the reasons which had led him to recommend that a favorable recommendation be made. He pointed out that while some of the organizers resided in other communities, this would not seem to be cause in itself for recommending unfavorably. It was his opinion that the Village of Smithtown could support another banking institution and that the people in the community would be better served if another bank was available.

Governor Vardaman said that he would be inclined to support the opinion of the Federal Reserve Bank in the absence of strong evidence that its recommendation should be overruled.

Governor Mills stated that although he had certain reservations with respect to the organizers, other factors seemed to be generally satisfactory and on balance there did not appear to be sufficient justification for an unfavorable recommendation.

Thereupon, approval was given to a letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., in the following form, Governor Vardaman voting "no":

9/28/55

-15-

Reference is made to a letter from your office dated May 5, 1955, enclosing photostatic copies of an application to organize a national bank at Smithtown, New York, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of New York discloses satisfactory findings with respect to the proposed capital structure and management of the bank. It is indicated that the existing commercial bank in Smithtown is providing fairly adequate facilities at this time and that the proponents' estimate of the volume of deposits and earnings of the new bank is quite optimistic. It appears that sufficient business will be available to permit the proposed bank to operate satisfactorily, especially if the expected growth in the community continues, and in view of the desirability of providing banking competition in the community, it is believed that favorable consideration may be given the proposal. Accordingly, the Board of Governors recommends approval of the application.

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

Consideration was given to the request of The Bank of Virginia, Richmond, Virginia, for an extension until September 29, 1956, of the time within which to establish a branch at the southeast corner of Jefferson Davis Highway and Ruffin Road pursuant to the authorization originally given by the Board on March 30, 1955.

Governor Robertson said the fact that banking quarters would have to be constructed apparently was not disclosed when the application was made, for if the facts had been known a six-month limitation would not have been reasonable. Since The Bank of Virginia, in acknowledging the

9/28/55

-16-

Board's letter of March 30, 1955, pointed out that it probably would not be possible to complete plans and construct a building for occupancy within six months, he felt that the requested extension of time should be granted. In the future, however, he felt that the Reserve Bank concerned and the Division of Examinations should endeavor to ascertain the full facts of the situation with respect to branch quarters so that the Board might act in the light of that information.

Governor Balderston said that when he was in Chicago recently, it was suggested to him that six-month limitations had been imposed in cases where it was physically impossible to obtain land and provide quarters within such a period.

Governor Robertson responded that the policy was not an inflexible one, that the amount of time allowed for establishing the branch was intended to be reasonable in the light of the circumstances involved, and that the establishment of a time limitation seemed warranted to prevent the preempting of desirable branch sites.

Thereupon, unanimous approval was given to a letter to Mr. Armistead, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

In view of the circumstances outlined in the member bank's letter of September 1, 1955, and the Reserve Bank's favorable recommendation, the Board of Governors extends until September 29, 1956, the time within which The Bank of Virginia, Richmond, Virginia, may establish an in-town branch at the southeast corner of Jefferson Davis Highway and Ruffin Road.

9/28/55

-17-

The following draft of telegram to Mr. Sanford, Assistant Vice President, Federal Reserve Bank of New York, had been circulated to the members of the Board and was presented for consideration:

Your wire September 22. Board approves opening and maintenance of account on your books in the name of the Banque Nationale du Vietnam subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments. It is understood that you will, in due course, offer participation in this account to other Federal Reserve Banks.

Approved unanimously.

There had been sent to the members of the Board, with a memorandum from Mr. Sherman dated September 21, 1955, copies of a summary of the recent report of the Commission on Intergovernmental Relations and copies of a suggested reply to a letter from the Bureau of the Budget requesting comments on that report. The suggested reply, which would be sent to the Honorable Rowland R. Hughes, Director of the Bureau of the Budget, over the signature of Vice Chairman Balderston, read as follows:

This letter is in response to yours of August 24, 1955, requesting the views of the Board of Governors concerning recommendations contained in the reports of the Commission on Intergovernmental Relations which are of interest to the Board. You request that the Board's comments indicate (1) how the recommendations contained in the Commission's report and supplementary reports would affect programs and operations of the Board, (2) the views of the Board concerning recommendations presented in the Commission's report and supplementary reports, and (3) suggested methods of putting the recommendations into effect, including the relationship of the recommendations to the Board's legislative program.

The report of the Commission has centered its attention on the functional and fiscal relationships among the national,

9/28/55

-18-

state, and local governments. It is noted on page 145 of the report that the Commission "has not dealt with questions of whether particular functions should be performed by the Government at all, nor has it dealt with substantive questions of policy in the various fields. It has confined its attention to problems of national-state-local relations prevailing in each field, the focal question being which level of Government should have the primary responsibility for performance of each function."

The fact that the supervision of banks in the United States is divided between the Federal and State Governments is the principal point of functional relationship of interest to the Board. However, the Commission makes no recommendations as to changes in this relationship. It is clear from statements contained in the report that its recommendations contemplate that (1) the organization of the Federal Government having to do with monetary and credit and banking problems would remain substantially unchanged, and (2) the Federal Government can contribute most to the solution of the fiscal problems raised in the report by promoting economic stability.

It would appear, therefore, that while the recommendations of the Commission, if carried out, might affect the fiscal problems of the Federal Government and kinds and amounts of securities offered in the securities markets, they would not affect in any material way the functioning of the monetary system. The policy questions raised by the report and the manner in which they should be decided are outside the field of the Board's responsibilities. Accordingly, the Board does not have any comments or suggestions to make with respect to the Commission's recommendations.

Approved unanimously.

Mr. Sloan then withdrew from the meeting and Messrs. Marget, Director, and Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance, entered the room.

Pursuant to the understanding at the meeting on September 15, 1955, there had been sent to the members of the Board copies of a draft

9/28/55

-19-

of letter to the Presidents of all Federal Reserve Banks inviting comments on an attached statement concerning the policy that should be followed in connection with loans on gold extended by Federal Reserve Banks to foreign banks or governments. In accordance with a further understanding at the same meeting, there had also been sent to the members of the Board copies of a draft of letter to Mr. Sproul, President of the Federal Reserve Bank of New York, relating to procedures which should be followed in considering applications for loans on gold.

Among the attachments to the proposed letter to the Presidents of all Federal Reserve Banks was a memorandum to the Board of Governors from the Division of International Finance dated September 15, 1955, which commented, by way of amplification, on the provisions included in the gold loan policy statement. On page 2 of the memorandum appeared a discussion of the fact that decisions with respect to the granting of Federal Reserve gold loans to other central banks implied a judgment as to the soundness of the financial policies being pursued by the applicant countries. However, the memorandum stated, it was not suggested that the System should go so far as to influence United States commercial banks to refrain from making loans on gold to countries apparently making no serious effort to overcome balance of payment difficulties.

Governor Mills commented that such language might be taken to refer to the New York Reserve Bank's recent action in sending to various

9/28/55

-20-

commercial banks in that city a letter calling attention to principles which the Reserve Bank felt should be kept in mind in connection with the extending of loans to foreign countries on dollar collateral. He suggested, therefore, that the memorandum be amended to eliminate the reference in question, even though he recognized that it was drafted before the New York Reserve Bank sent its letter to commercial banks in that city.

It was agreed that Governor Mills' suggestion should be adopted and that the commercial bank lending question should be treated on its own merits if it should become necessary for the Board to give consideration to the problem.

Thereupon, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks reading as follows:

The Board of Governors has been re-examining its policy and procedures with respect to loans by Federal Reserve Banks on the basis of gold collateral. Appended as Annex I hereto is a statement, which the Board now has under consideration, entitled "Possible Policy on Gold Loans." The Board would welcome any comments you may wish to make with respect to this statement.

Appended also, as Annex II, is a memorandum by the Board's Division of International Finance, entitled "Gold Loan Policy," which may be regarded as providing background for the provisions suggested in Annex I.

Finally, since reference is made in the statement on "Possible Policy on Gold Loans" (Annex I), to Regulation N and to the confidential "Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks," of January 1, 1944, copies of these two documents are appended, for your convenience, as Annex III.

9/28/55

-21-

The discussion then turned to the proposed letter to President Sproul relating to gold loan procedure, and there was agreement that the draft and its attachment (a summary of a discussion on September 7, 1955, which was participated in by Governors Szymczak and Mills and staff members of the Board and the New York Bank) set forth a satisfactory basis for cooperation between the Board and the New York Bank in exchanging information pertinent to gold loan negotiations. A question was raised, however, as to whether the letter should be strengthened to provide for the writing of memoranda from the Reserve Bank to the Board concerning conversations, negotiations, and discussions rather than the furnishing of copies of memoranda written within the Bank. Following a discussion of this point, it was agreed that the proposed arrangements seemed adequate, and it was noted that they could be changed from time to time if they did not work out satisfactorily.

A question also was raised concerning the procedure which the staff of the Board should follow in handling memoranda or other documents submitted by the New York Reserve Bank in regard to proposed gold loans. It was agreed that it would be appropriate for the staff to transmit such material to the Chairman, or in his absence to the Vice Chairman, so that the Chairman or Vice Chairman might bring the subject before the Board or handle the matter in such other way as might be considered appropriate.

Thereupon, unanimous approval was given to a

9/28/55

-22-

letter to President Sproul reading as follows:

The Board of Governors has been advised by its Special Committee on Gold Loan Procedure of the discussions of this subject which have been had with representatives of your Bank.

On occasions in the past, the Board has felt the need of more prompt and complete information as a basis for the discharge of its responsibilities in connection with gold loans that are under discussion or consideration, particularly with respect to proposed loans which involve new, difficult or controversial aspects. The Board is, accordingly, pleased to learn the results of the discussions with the representatives of your Bank as noted in the memorandum of September 9, 1955, entitled "Discussion Regarding Gold Loans," a copy of which is enclosed for your convenient reference.

In the light of these discussions as reported by the Board's Committee, the Board will expect that, in implementation of and in addition to the provisions of Regulation N and the related Statement of Procedure of January 1, 1944, the Federal Reserve Bank of New York will keep the Board promptly and fully advised, either in writing or by telephone, of all conversations, negotiations and discussions with foreign representatives in contemplation of or relating to gold loans proposed or suggested, and that the Bank will promptly transmit to the Board copies of all memoranda written in the Bank, as well as copies of all correspondence, on these matters. This applies, of course, to cases in which it is expected that the suggested loan may not be made, as well as to others. It is believed that an early exchange of information between the Board and the Bank on all such matters will be mutually helpful in the discharge of their respective responsibilities.

The Board recognizes that much of the information mentioned above is already being provided through existing practices but feels it desirable to state the contemplated procedures more explicitly in the interest of clarity and mutual understanding. The Board appreciates the cooperation and assistance of the representatives of your Bank in the discussions which have taken place.

9/28/55

-23-

Messrs. Marget and Tamagna then withdrew from the meeting and Messrs. Leonard, Director, Division of Bank Operations, and Bethea, Director, Division of Administrative Services, entered the room.

There had been circulated to the members of the Board a memorandum from Governor Robertson dated September 23, 1955, discussing a proposal by the Treasury Department and the Federal Deposit Insurance Corporation for a central communications center at the Board's relocation site which would serve those two organizations as well as the Board. After reviewing discussions held with those agencies and with the Office of Defense Mobilization, the memorandum recommended approval of the establishment of a central communications center, with provision of personnel and allocation of expenses along the lines stated in the memorandum. It also recommended that appropriate letters be sent to the Treasury Department, the Federal Deposit Insurance Corporation, and the Office of Defense Mobilization.

Following a statement by Governor Robertson, Governor Vardaman suggested that the matter be referred to him (Governor Robertson) with power to act.

This suggestion was approved unanimously.

Messrs. Leonard, Bethea, and Kenyon withdrew from the meeting at this point.

Before this meeting there had been sent to the members of the Board a draft of proposed reply to a letter from Congressman Wright

9/28/55

-24-

Patman, received by Governor Balderston as Vice Chairman of the Board under date of September 22, 1955. Mr. Patman's letter referred to another letter he had addressed to Chairman Martin under date of September 10 and to Governor Balderston's September 16 acknowledgment of that letter, and it concluded by suggesting that the Board of Governors recommend without delay the removal of the executive offices of the Federal Open Market Committee from New York City to Washington, D. C. Governor Balderston had also received a letter from Mr. Sproul, as President of the Federal Reserve Bank of New York, dated September 23 referring to a report that had appeared in the press that morning regarding Mr. Patman's foregoing suggestion (Mr. Patman's letter of September 22 had not been received in the Board's offices until Saturday, September 24, 1955), and Mr. Sproul suggested that it would be helpful to the members of the special committee studying the general problem of the Federal Open Market Committee's structural and operating organization to have a copy of Mr. Patman's letter in order that appropriate consideration might be given to his suggestion.

The draft of proposed reply to Mr. Patman, which had been prepared for signature by Governor Balderston as Vice Chairman of the Board of Governors, was discussed in terms of whether the reply should be sent as an answer by the Board or whether Mr. Patman's letter should be referred to the Federal Open Market Committee before a response was sent. During this discussion it was pointed out that Mr. Patman's letter was addressed

9/28/55

-25-

to Governor Balderston as Vice Chairman of the Board, that it contained the suggestion that the Board of Governors recommend without delay the removal of the executive offices of the Federal Open Market Committee from New York City to Washington, D. C., and that Mr. Patman was urging that a reply to his letter be sent promptly. There was general agreement with a suggestion by Governor Mills that, in view of these facts, the Board should respond promptly to Mr. Patman's letter and that at the same time a copy of the recent correspondence with Mr. Patman should be sent to the Presidents of all Federal Reserve Banks.

Turning to a discussion of the substance of the reply, several suggestions for changes in the draft were proposed and it was understood that a revised draft would be prepared in the light of the discussion and submitted to the Board for further consideration at a meeting tomorrow.

During the foregoing discussion Governor Vardaman suggested that it might be desirable to request the staff to make a study of the Government bond market and its position in an economy based on free markets. He stated that his thought was that such a study might help establish whether the Government bond market was a market similar to other markets for securities and commodities.

This suggestion was discussed but no conclusion was reached regarding making a request that the staff undertake a study such as Governor Vardaman suggested.

Minutes of actions taken by the Board of Governors of the Federal

9/28/55

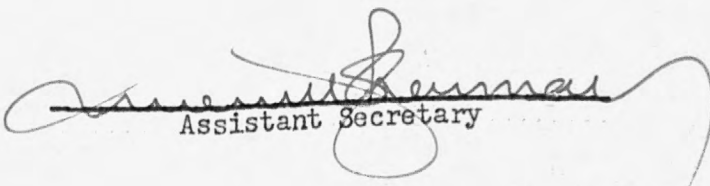
-26-

Reserve System on September 27, 1955, were approved unanimously.

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

The Secretary's Office later was advised by the Vice Chairman that during the executive session the Board considered the appointment of a Class C director of the Federal Reserve Bank of Kansas City on the basis of suggestions contained in a memorandum from Governor Robertson dated September 26, 1955; and that it was voted unanimously to request the Chairman of the Kansas City Reserve Bank to ascertain whether Mr. Oliver S. Willham, President, Oklahoma A & M College, Stillwater, Oklahoma, would accept appointment, if tendered, as a Class C director for the unexpired portion of the term ending December 31, 1956, with the understanding that if he would accept, the appointment would be made.

The meeting then adjourned.



Assistant Secretary