

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 29, 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. Riefler, Assistant to the Chairman
 Mr. Young, Director, Division of Research and Statistics
 Mr. Solomon, 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:

Memoranda from appropriate individuals concerned recommending actions with respect to the Board's staff as follows:

Appointment, effective upon the date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>
Verna P. Ryon, Stenographer	Legal	\$3,670

Change in basis of employment

Mary Ann Nichols, Clerk-Typist, Division of Research and Statistics. From a full-time to a part-time (four-hour day) basis, with basic salary at the rate of \$1,588 per annum, effective September 26, 1955.

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Salary increases, effective October 9, 1955

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Office of the Secretary</u>		
Jeanne K. Semia, General Assistant		\$5,980	\$6,115
	<u>Research and Statistics</u>		
Katherine G. Black, Clerk		3,755	3,840
Orville K. Thompson, Economist		8,215	8,430
	<u>International Finance</u>		
Catherine B. Davian, Clerk-Stenographer		3,585	3,670
	<u>Bank Operations</u>		
Doris Bubb, Statistical Clerk		3,755	3,840
Catherine Fornof, Clerk-Stenographer		3,840	3,925
Edna Noyes, Statistical Clerk		3,415	3,500
	<u>Examinations</u>		
Robert C. Griffin, Assistant Federal Reserve Examiner		3,805	4,080
	<u>Administrative Services</u>		
Florence A. Norman, Cafeteria Helper		2,750	2,825

Approved unanimously.

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Memorandum dated September 23, 1955, from Mr. Bethea, Director, Division of Administrative Services, recommending: (1) that the Division of Personnel Administration be authorized to take appropriate action to process Messrs. Daniel J. Coli and Thomas D. Wyatt, employees of the Federal Reserve Bank of Richmond, for top security clearance; and (2) that the Board approve granting an administrative interim security clearance through "secret", provided national agency checks on the two employees were satisfactory to the Board's Personnel Security Officer and a full field investigation was initiated.

Following comments by Governor Robertson concerning the relationship of this matter to the Board's defense planning program, the recommendations were approved unanimously.

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

In accordance with the request contained in your letter of September 19, 1955, the Board approves the designation of Robert B. Higgins as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of the Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; The Connecticut Bank and Trust Company, Hartford, Connecticut; and Rhode Island Hospital Trust Company, Providence, Rhode Island.

Approved unanimously.

Letter to the Board of Directors, Riverside Trust Company, Hartford, Connecticut, reading as follows:

Pursuant to your request, the Board of Governors approves the establishment of a branch by the Riverside Trust Company, Hartford, Connecticut, at the present site of the New Hartford Trust Company in the Town of New Hartford, Connecticut, incident to the proposed merger of the New Hartford Trust Company with and into the Riverside Trust Company, provided the transaction is effected substantially in accordance with the agreement of merger dated August 17, 1955, and the branch is established within six months from the date of this letter.

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

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

Reference is made to your letter of September 9, 1955, advising of the serious flood damage which has prevented the resumption of operations of the Social Office of the Rhode Island Hospital Trust Company at 521 Social Street, Woonsocket, Rhode Island, and the Hurlbut Office of The Connecticut Bank and Trust Company in Winsted, Connecticut.

It is noted that the aforementioned branch of The Connecticut Bank and Trust Company will probably not be opened for another week or two and that the operations thereof have been combined with and are being handled through the Park Office of The Connecticut Bank and Trust Company in Winsted.

It is also noted that the Social Office of the Rhode Island Hospital Trust Company is being temporarily operated at 685 Social Street in Woonsocket, where it is anticipated that branch operations will be conducted for three or four months while the branch building is being repaired.

It appears that the removal of the branch of the Rhode Island Hospital Trust Company constitutes merely a temporary relocation of the branch in its immediate neighborhood without affecting the nature of its business or customers served, and therefore the approval of the Board of Governors is unnecessary. You may wish to advise the bank accordingly.

Approved unanimously.

Letter to the Board of Directors, The Central Trust Company, Cincinnati, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the southeast corner of Reading Road and Seymour Avenue, Cincinnati, Ohio, by The Central Trust Company, Cincinnati, Ohio, provided the branch is established within one year from the date of this letter and the approval given by the State authorities is effective as of the date the branch is established.

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

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

Reference is made to your letter of September 19, 1955, with respect to the request of the Security Bank, Lincoln Park, Michigan, for a further extension of time within which to establish a branch at Northline Road and Dix-Toledo Road in Southgate, Ecorse Township, Wayne County, Michigan.

After considering the information submitted and in view of the pending litigation with respect to the legality of the establishment of the proposed branch, the Board extends to January 10, 1956, the time within which the Security Bank may establish the above described branch. It is assumed that this branch will not be established until the litigation is settled in such a manner that will conclusively permit the branch to be legally established.

Approved unanimously.

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

Reference is made to your letter of September 16, 1955, submitting the request of The First State Bank of Thompson Falls, Thompson Falls, Montana, 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 \$37,500 in bank premises by The First State Bank of Thompson Falls, Thompson Falls, Montana, as outlined in the bank's letter of September 14, 1955, addressed to Mr. R. K. Grobel, Chief Examiner, Federal Reserve Bank of Minneapolis.

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

Approved unanimously.

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

As recommended in Mr. Galvin's letter of September 20, 1955, the Board of Governors extends to November 22, 1955, the time within which California Bank, Los Angeles, California, may establish a branch at Third Street and La Cienega Boulevard, Los Angeles, California.

Please advise the bank of this extension.

Approved unanimously.

At this point Mr. Sloan, Director, Division of Examinations, entered the room.

Consideration was given to the following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., which had been circulated to the members of the Board prior to this meeting:

Reference is made to your letter requesting that arrangements be made for an examiner for the Federal Reserve Bank of Richmond to join your examiner in the investigation incidental to the proposal to organize a new national bank at 1415 "K" Street, Washington, D. C. It was stated that the group sponsoring the proposal was the same as that whose application to organize a national bank at 5037 Connecticut Avenue, N. W., in Washington, D. C., was denied.

From the report of investigation made by an examiner for the Federal Reserve Bank of Richmond, it appears that the new proposal involves (1) a proposed increase in the par value of capital from \$350,000 to \$500,000 and in total paid-in capital, surplus and undivided profits from \$500,000 to \$750,000, (2) relocation as described above, and (3) a proposed increase in the number of directors from seven to fifteen. The names of the additional eight directors to be elected were withheld.

In connection with the previous application, the Board recommended that it be disapproved because (1) the limited

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proposed capital structure probably would not place the bank in a position to compete successfully with the larger institutions in the city, (2) its ability to acquire sufficient business for profitable operations was open to question, (3) the proposed management lacked commercial banking experience, and (4) there appeared to be no need for the proposed facility. Incidentally, the examiner cited one fact in connection with the original application which was not referred to in the Board's letter but may have more significance in connection with this reconsideration. The examiner felt that proposed directors Weissberg and Snyder (the latter also proposed as Vice President) were not eligible as they are presently officers and directors of Security Finance, Incorporated, a corporation which is engaged in issuing and selling bonds to the public.

The presently proposed location is in the downtown business section with the head offices of fourteen banks, including the largest in the city, and four branch banks located within a radius of six blocks. While it is proposed to increase capital, it does not appear that the amount proposed would place the bank in a position to compete successfully in the new location. It is stated that two experienced and capable operating officers will be provided but they are not named and the eight additional directors to be appointed are not named. Otherwise, the management situation is unchanged. In the new location it does not appear that the bank would have any less difficulty in attracting a sufficient volume of business to assure profitable operations and the need for the proposed facility is even less apparent. In the circumstances, the Board does not feel justified in recommending approval of the new and apparently tentative application.

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

After reviewing the reasons why the Board recommended unfavorably to the Comptroller of the Currency with respect to the original application, Governor Robertson said that when the application was refused by the Comptroller, one of the proponents, Representative Abraham J. Multer of New York, requested a public hearing but later withdrew that

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request and visited the Comptroller's Office for a discussion. Mr. Multer was understood to have said during that discussion that if the organizers could not secure a charter for a national bank at the location originally proposed, they desired a charter for a bank at some other location in the city of Washington. Representatives of the Comptroller's Office reportedly replied that an application must be made for a bank at some specific location and subsequently the proponents filed the current application. Another investigation therefore was made by representatives of the Comptroller's Office, the Federal Reserve Bank of Richmond, and the Federal Deposit Insurance Corporation. After outlining the facts reported by the Richmond Bank's examiner, Governor Robertson said that he concurred in the adverse recommendation proposed by the Reserve Bank and the Division of Examinations.

Governor Vardaman stated that although he would vote to approve the proposed letter in view of the facts presented, he felt that another bank in the city of Washington, properly capitalized and managed and slanted toward the needs of the smaller depositor and borrower, would be a distinctly worthwhile addition to the local banking picture.

Thereupon, the letter to the Comptroller of the Currency was approved unanimously in the form submitted.

The following draft of letter to the Comptroller of the Currency also had been circulated to the members of the Board and was presented for consideration:

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Reference is made to a letter from your office dated July 14, 1955, enclosing photostatic copies of an application to organize a national bank at Tampa, Florida, 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 Atlanta indicates that the proposed capital structure of the bank would be satisfactory; that the prospects for satisfactory earnings of the institution would be poor, and that the general character of the management cannot be regarded as favorable. It appears that a new State bank is to be opened about two miles from the site chosen by the proponents of the national bank and that considerable doubt exists with respect to the need for an additional banking facility in the area. In the circumstances, the Board of Governors does not feel justified in recommending approval of the application.

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

At the Board's request, Mr. Sloan commented on the facts disclosed by the investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta.

There was concurrence in the view of the Reserve Bank that an unfavorable recommendation should be made. In this connection, however, Governor Mills stated that, as Governor Vardaman had commented on a previous occasion, it appeared that examiners for the Atlanta Reserve Bank sometimes included in their reports of investigation comments regarding the qualifications or motives of the organizers based on surmise and personal impression rather than factual evidence.

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Governor Robertson said that he also had noticed such a tendency. He pointed out, however, that reference to the matter except in personal conference with officers of the Reserve Bank might have the unfortunate effect of causing the examiners to become unduly reticent in expressing themselves. He then stated that he would talk with Mr. Denmark, Vice President in charge of examinations at the Atlanta Bank, the next time the latter was in Washington.

Thereupon, the letter to the Comptroller of the Currency was approved unanimously in the form submitted.

Mr. Sloan then withdrew from the meeting and Messrs. Thomas, Economic Adviser to the Board, Cherry, Legislative Counsel, and Molony, Special Assistant to the Board, entered the room.

Pursuant to the understanding at the meeting yesterday, there had been sent to the members of the Board copies of a revised draft of letter to Representative Patman of Texas which would constitute a reply to his letters of September 10 and 22, 1955, concerning action taken with regard to the recommendations made in the 1952 report of the ad hoc subcommittee of the Federal Open Market Committee and concerning short-selling in the Government securities market.

The revised draft was reviewed in detail and a number of suggestions were made for editorial revisions. When agreement had been reached on the changes to be made, a question was raised regarding distribution of copies of the letter, it being noted that following the meeting of

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the Federal Open Market Committee on August 23, 1955, copies of the letters transmitted previously to Mr. Patman on short-selling (August 17, 1955) and on the Federal funds market (August 2, 1955) were sent to the Chairmen and Presidents of all Federal Reserve Banks and to the members and Secretary of the Federal Advisory Council. After a discussion of this point, it was agreed that copies of the two most recent letters from Mr. Patman and the responses thereto should be sent to the Reserve Bank Presidents at this time and that the question of further distribution would be deferred at least until the meeting of the Federal Open Market Committee to be held on October 4.

Thereupon, unanimous approval was given to a letter for the signature of Vice Chairman Balderston to Representative Patman reading as follows:

This letter will supplement my earlier acknowledgment of your letter of September 10 inquiring about action taken on the several recommendations made by the Ad Hoc Subcommittee of the Federal Open Market Committee and will also respond to your letter of September 22.

With reference to your specific question relating to the "housekeeping" arrangements for the System Open Market Account, the questions raised by the recommendations made in the Ad Hoc Subcommittee's report are under active consideration within the Committee but final decisions have not been reached. We are presenting to the membership of the Federal Open Market Committee your point of view, as expressed in your letter of September 22, regarding the physical location of the offices of the management of the System Open Market Account.

Your letter of September 10 also asks about the actions taken with respect to the several other recommendations of the Ad Hoc Subcommittee. Most of the recommendations other than those relating to the "housekeeping" arrangements have

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been adopted in substance, except for the recommendations (a) that repurchase facilities be made regularly available to nonbank dealers over week ends; (b) that the individual morning dealer conference be abandoned; and (c) that reports on individual dealer positions and activity, if received at all, be submitted to an officer of the System other than the Manager of the System Open Market Account. The holding of morning conferences with dealers and the furnishing of reports by dealers are no longer required, but the Manager of the System Account is left free to enter into such conferences or to receive such reports, if dealers want conferences on their own initiative and if reports are received from them on a voluntary basis.

The other question asked in your letter of September 10 is whether Chairman Martin's remarks in his letter of August 17, 1955 regarding the technique of short-sales and the general function of such transactions reflect the view of the Board of Governors and the Open Market Committee. Chairman Martin's letter of August 17, which was cleared with members of the Federal Open Market Committee, indicates that the market in United States Government securities would lack continuity in the absence of specialized dealers prepared to consummate transactions by taking positions. Experience has shown that a broad and freely functioning market in United States Government securities is essential if Federal Reserve open market operations are to contribute to economic growth with stability.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 28, 1955, were approved unanimously.

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

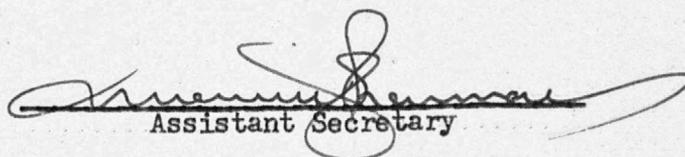
The Vice Chairman later advised the Secretary's Office that during the executive session the Board, acting upon the recommendation contained in a memorandum dated September 21, 1955, from Mr. Marget, Director, Division of

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International Finance, approved the appointment of Ralph C. Wood as Chief of the Central and Eastern European Section in that Division, with basic salary at the rate of \$10,750 per annum, effective as of the date of entrance upon duty.

The meeting then adjourned.



Assistant Secretary