

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 3, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Solomon, Assistant General Counsel
 Mr. Sprecher, Assistant Director, Division of Personnel Administration

The following draft of letter to Mr. William S. Gray, Chairman, Board of Trustees, The Hanover Bank, New York, New York, which had been circulated to the members of the Board, was presented for consideration:

This will acknowledge your application dated October 10, 1955, requesting permission to change the location of your West End Branch in London, England, from 15 Carlos Place, London W.1, to 10 Mount Street, London W.1.

The Board of Governors approves the proposed change in location of the West End Branch. Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved herewith will not be changed without the prior approval of the Board of Governors.

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

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The following requests for travel authorization were presented:

Mr. Thomas, Economic Adviser to the Board. To travel to Richmond, Virginia, during the period December 7-10, 1955, to participate in the Federal Reserve Bank of Richmond's central banking seminar.

Mr. Young, Director, Division of Research and Statistics. To travel to Dallas, Texas, during the period November 9-11, 1955, to attend a meeting of the Board of Directors of the Federal Reserve Bank of Dallas and to review and evaluate the research program of the Bank.

Approved unanimously.

Reference was made to a request from the Comptroller of the Currency for a recommendation with respect to an application to organize a national bank near Pensacola, Florida. The Federal Reserve Bank of Atlanta suggested an unfavorable recommendation on the grounds that there seemed to be no definite need for another banking facility in the Pensacola area and the Division of Examinations submitted a draft of letter which would take that position. When the file was in circulation Governor Mills attached a note in which he expressed the opinion that a favorable recommendation was warranted, subject to the provision of capital in an amount acceptable to the Comptroller's Office. Chairman Martin and Governors Shepardson and Robertson indicated on attachments to the file that they agreed with Governor Mills.

In commenting on the matter, Mr. Sloan called attention to the Board's action on October 24, 1955, in recommending unfavorably to the Comptroller of the Currency regarding an application to organize a national bank in Fort Lauderdale, Florida, and stated various respects in which

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the circumstances surrounding that application and the application to organize a bank near Pensacola seemed to be similar. He went on to say that the Division of Examinations would appreciate any guidance which the Board might wish to offer regarding criteria which might be used in developing recommendations with respect to applications of this nature.

With regard to Mr. Sloan's comments concerning similarities between the Fort Lauderdale and Pensacola applications, Governor Robertson stated that admittedly they were both borderline cases. However, the Pensacola bank would be located about five miles from the center of the city and there was an area of some importance developing beyond the proposed site. Since the bank would be located in a section now without banking facilities, the area was well-populated, and the bank would have good management, he felt that in this case the doubt could be resolved in favor of an affirmative recommendation.

In additional comments, Governor Robertson said that the ideal procedure would be to stop short of chartering new banks before excessive competition developed while at the same time permitting a sufficient number of banks to organize to provide adequate service under competitive conditions.

In a further discussion, attention was called to the difficulty of establishing any criteria with respect to applications for new banks which might be used generally and it was suggested that judgment must be

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relied upon in evaluating the circumstances surrounding each individual application.

At the conclusion of the discussion, unanimous approval was given to a letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., in the following form:

Reference is made to a letter from your office dated August 23, 1955, enclosing photostatic copies of an application to organize a national bank at Pensacola, Florida, and requesting a recommendation as to whether or not the application should be approved.

On the basis of information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta, the Board of Governors recommends approval of the application in the event capital in an amount acceptable to the Comptroller of the Currency is provided.

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

Reference was made to the following draft of letter to Mr. Treiber, First Vice President, Federal Reserve Bank of New York, which had been circulated to the members of the Board prior to this meeting:

Reference is made to your letter of October 6, 1955, in which your Bank requests the Board's approval of upward adjustments in the three salary structures applicable to the employees of your Bank and Buffalo Branch.

The Board approves the following minimum and maximum salaries for the respective grades of the various structures effective immediately.

<u>Grade</u>	<u>CLERICAL</u>	
	<u>Head Office</u>	
	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$2,200	\$2,970
2	2,427	3,276

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<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
3	\$2,681	\$3,619
4	2,964	4,001
5	3,278	4,425
6	3,622	4,890
7	3,995	5,393
8	4,398	5,937
9	4,846	6,542
10	5,354	7,228
11	5,922	7,995
12	6,563	8,860
13	7,295	9,848
14	8,117	10,958
15	9,058	12,228
16	10,148	13,700

CLERICAL
Buffalo

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$2,000	\$2,700
2	2,200	2,970
3	2,424	3,272
4	2,675	3,611
5	2,951	3,984
6	3,254	4,393
7	3,584	4,838
8	3,940	5,319
9	4,334	5,851
10	4,782	6,456
11	5,283	7,132
12	5,849	7,896
13	6,495	8,768
14	7,220	9,747
15	8,049	10,866
16	9,011	12,165

NON-CLERICAL
Head Office and Buffalo

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$2,287	\$3,087
2	2,399	3,239

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<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
3	\$2,523	\$3,406
4	2,666	3,599
5	2,836	3,829
6	3,042	4,107
7	3,286	4,436
8	3,576	4,828
9	3,925	5,299
10	4,329	5,844
11	4,762	6,429

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is understood that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate ranges by December 31, 1955, except for those cases, which the Board has been advised are nominal, that are to be worked out within a six months' period.

Following supplementary comments on the matter by Mr. Johnson, the letter was approved unanimously.

Messrs. Johnson and Sprecher then withdrew from the meeting.

Governor Robertson referred to discussion at the meeting on September 7, 1955, concerning the application of City Bank, Detroit, Michigan, for permission to establish a branch in Madison Heights, Royal Oak Township. At that time it was agreed that action on the application should be deferred until exploration by Governor Robertson of the member bank's plans for augmenting its capital structure.

After summarizing the previous discussion of the matter, Governor Robertson read a memorandum which he had prepared following a conference with representatives of the bank which he and members of the Board's staff

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held yesterday. At that meeting plans were disclosed for the issuance of new common stock in the spring of next year in the approximate amount of \$600,000. The bank's representatives estimated that in the meantime at least \$500,000 would be added to capital through retention of earnings and they hoped that the amount of money obtained from the sale of new stock could be in the neighborhood of \$1 million.

Governor Robertson said that these steps would not solve problems incident to the bank's capital structure completely, but that they would help and the present management might be expected to approach these and other problems of the bank aggressively. Regarding the proposed branch, he said that it would be a small office designed to take care of a particular area and that its establishment would not have any substantial effect from the standpoint of the bank's capital position. He felt that progress had been made at the meeting yesterday and in the circumstances it was his recommendation that the branch application be approved. Since all of the members of the Board except Governor Balderston, who was out of town at the time, had seen the file on the branch application when it was originally circulated, Governor Robertson suggested that Governor Balderston be given an opportunity to review the file and, if he had no questions, that the application be approved.

Pursuant to Governor Robertson's suggestion, it was agreed that if Governor Balderston had no question following a review of the file, City Bank should be advised that the Board approved its application to establish a branch in Royal Oak Township.

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Secretary's Note: Pursuant to the above action, and with Governor Balderston's approval, the following letter to the Board of Directors, City Bank, Detroit, Michigan, was sent to the Federal Reserve Bank of Chicago on November 3, 1955, for transmittal to the State member bank:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of John R. and Twelve Mile Road, Madison Heights, Royal Oak Township, Michigan, by City Bank, provided the branch is established within six months from the date of this letter.

Governor Robertson then discussed a situation which had developed with respect to Bankshares Incorporated, Minneapolis, Minnesota, a holding company affiliate to which permits had been granted over a period of years to vote the stock of member banks controlled by it. It now appeared that Bankshares Incorporated was in fact controlled by another organization (North Central Corporation, also of Minneapolis) which had never obtained a voting permit and that this circumstance raised a number of legal questions. He said that the Federal Reserve Bank of Minneapolis was now in the process of making an examination of Bankshares Incorporated, that the Office of the Comptroller of the Currency had expressed an interest in joining in the examination in view of the fact that some of the controlled banks were national banks, and that the Reserve Bank had asked whether the Board would want to send an examiner and a lawyer from its staff to participate in the consideration of questions which might arise out of the

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examination of the holding company affiliate. Governor Robertson said that after reviewing the matter with members of the staff, he saw no reason to send anyone from the Division of Examinations but that he would suggest that Mr. Hexter, Assistant General Counsel, be sent to Minneapolis to work with representatives of the Reserve Bank and the Comptroller's Office. In that way, he pointed out, answers would be readily available if any aspects of this case should be referred to in the course of hearings concerning holding company legislation.

In a discussion of the matter, Governor Mills inquired whether the Federal Reserve Bank was not adequately staffed for the purpose and whether the sending of a member of the Board's staff to participate in the work might not attach undue significance to the matter and possibly cause speculation concerning the controlled banks.

Chairman Martin suggested that the matter be referred to Governor Balderston for decision after further discussion with Governors Mills and Robertson, and there was agreement with this suggestion.

Mr. Sloan then withdrew from the meeting and Mr. Cherry, Legislative Counsel, entered the room.

Prior to this meeting there had been sent to the members of the Board copies of a draft of reply to a letter dated October 17, 1955, in which Representative Patman referred to provisions of the Internal Revenue Code regarding the treatment of commercial bank profits and losses on Government securities transactions and stated that he would like to have the

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Board's views on the desirability of retaining the present provisions of the law. He also asked whether "tax switches" of securities which were facilitated by these provisions conflicted in any way with Board credit policies. Along with the draft of reply there had been sent to the members of the Board a background memorandum concerning the tax treatment of commercial banks' capital gains and losses in Government securities.

The draft of reply was discussed and several suggestions were made, including the suggestion that the background memorandum be enclosed with the reply to Mr. Patman. In view of these suggestions, it was understood that a revised draft of letter would be prepared for consideration at the meeting of the Board tomorrow.

During the foregoing discussion Governor Mills withdrew from the meeting to keep another appointment.

Governor Robertson discussed recent developments in the money market and expressed the opinion that a greater degree of ease might have developed than was contemplated by current Federal Reserve credit policy. He questioned whether the substantial increase in negative free reserves of member banks which would be disclosed by this week's Federal Reserve statement would bring about the desired degree of restraint and suggested that the Board might wish to give thought to the possibility of an increase in the Federal Reserve Bank discount rate next week. He pointed out that at times in the past the discount rate had not been increased until after the action was generally anticipated and it was his thought that an early move in this direction might have a salutary effect.

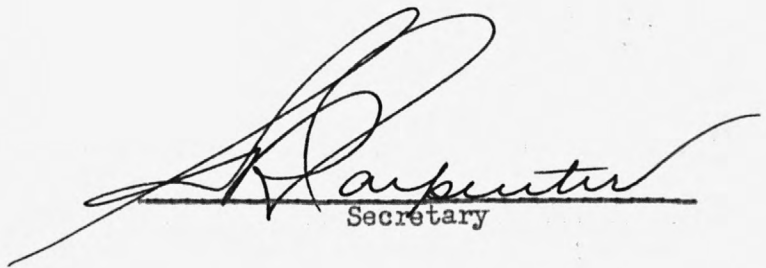
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During a discussion of recent market behavior and the possible effects of an increase in the discount rate, Chairman Martin stated reasons why he felt careful consideration should be given to current developments in the financial markets and why he would not be prepared at the moment to increase the discount rate. He agreed with Governor Robertson, however, that the situation was such that it should continue to be watched closely so that the Reserve Banks and the Board would be prepared to act promptly should rapidly changing conditions warrant.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 2, 1955, were approved unanimously.

The meeting then adjourned.



Secretary