

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 18, 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. Shepardson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Vest, General Counsel

The following matters, which had been circulated among the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memoranda dated November 9, 1955, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Katherine D. Ayers and Joan V. Caulfield as Records Clerks in the Office of the Secretary, each with basic salary at the rate of \$3,415 per annum and effective as of the respective dates on which they enter upon the performance of their duties.

Approved unanimously.

Memorandum dated November 7, 1955, from Mr. Marget, Director, Division of International Finance, recommending that the resignation of Charles E. Rollins, Economist in that Division, be accepted effective December 16, 1955.

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 November 7, 1955, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Boston for the purpose of participating

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in the examinations of Rhode Island Hospital Trust Company, Providence, Rhode Island; The Connecticut Bank and Trust Company, Hartford, Connecticut; Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine:

Henry J. Barry	Rita M. Moss
Mary Kucheruk	Mildred A. Wisnes
Ruth E. Lowe	Arthur Christie
Dorothy A. Coll	Raymond J. Dauphin
Wallace Bruce, Jr.	Mary B. Larkin
Mary C. Arnao	Janice A. Lyons
Gloria A. Cragin	Stella M. Garbarczuk
Alvera DiNapoli	Loretto Bishop
Anne C. Evangelista	

Approved unanimously.

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

In accordance with the request contained in your letter of November 4, 1955, the Board approves the appointment of Richard Topham Layton as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to Mr. Perrin, Chairman, Federal Reserve Bank of Minneapolis, reading as follows:

At the completion of the examination of the Federal Reserve Bank of Minneapolis, made as of August 12, 1955, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was left also for President Powell.

The Board has noted the expenditures for entertainment in connection with various meetings, listed on page 22 of the report of examination. As you know, this general problem was the subject of the Board's letter of June 21, 1955, to President Young as Chairman of the Conference of Presidents and it was also discussed at the June meeting of the Conference and the Board. While the amounts of the expenditures listed in

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the report were not large, the Board feels strongly that they fall into a class of expenditure that should be avoided in the future.

The Board will appreciate advice that the report of examination has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated.

Approved unanimously.

Letter to the Board of Directors, Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, reading as follows:

The Board of Governors of the Federal Reserve System approves the establishment of a branch on Passyunk Avenue between 23rd and 24th Streets, Philadelphia, Pennsylvania, by the Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, provided the branch is established within six months from the date of this letter.

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

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

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at the northeast corner of the intersection of Juniper and Market Streets, Philadelphia, Pennsylvania, by Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, provided (a) the proposed merger with The Market Street National Bank of Philadelphia is effected substantially in accordance with the plan of merger dated October 6, 1955; (b) the branch is established within six months from the date of this letter; and (c) formal approval of the appropriate State authorities is obtained.

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

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Letter to the Board of Directors, Security Commercial Bank, Birmingham, Alabama, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 2017-2023 Fourth Avenue, North, Birmingham, Alabama, by Security Commercial Bank, Birmingham, Alabama, provided the branch is established within six months from the date of this letter.

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

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

It is desired that the regular annual report to the Board on Form F. R. 437 be obtained from Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, covering its fiscal year ended October 31, 1955. Please request the Corporation to file its report in duplicate with your Bank on or before December 1, 1955. However, if the Corporation's annual audit by public accountants has not been completed by that date, the Corporation may, if it so desires, await the completion of the audit and file its report to the Board as soon as practicable thereafter.

We are enclosing six copies of Form F. R. 437 for use in obtaining the report from Wisconsin Bankshares Corporation.

It is requested that one copy of the report be forwarded to us immediately after receipt by your Bank, to be followed later by such additional data and explanations as it may be necessary to obtain from the Corporation to complete or correct the report. After your Bank has reviewed the report, and other relevant information, we shall appreciate receiving a copy of the memorandum relating to such review, together with any recommendations, comments, or suggestions which you may have regarding the group.

Approved unanimously.

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Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

Reference is made to your letter of October 26, 1955, submitting with a favorable recommendation a request of The Gunnison Bank and Trust Company, Gunnison, Colorado, for permission under section 24A of the Federal Reserve Act to invest \$70,000 in new banking premises, including \$50,000 in leasehold improvements.

The Board has given consideration to the asset condition, management, earnings, capital structure, and physical needs of The Gunnison Bank and Trust Company and approves the investment of not to exceed \$70,000 for the proposed building program, provided the leasehold improvements and other bank premises are depreciated \$5,000 and \$1,000 per annum, respectively, as proposed by the management. Please advise the trust company accordingly.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Reference is made to a letter from your office dated September 22, 1955, enclosing photostatic copies of an application to organize a national bank at Aurora, Colorado, 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 Kansas City reveals rather unfavorable findings with respect to the factors usually considered in connection with such proposals. It is reported that the proposed capital structure of the bank may be somewhat inadequate due to the probable operating losses which may be sustained in the first several years of operation; that the earnings prospects are unfavorable, and that the proposed executive management is not considered satisfactory. There does not appear to be sufficient need for an additional bank in the area at this time. After considering all of the information available, the Board of Governors recommends that the application be denied.

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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.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Enclosed are copies of a letter (S-1568) dated July 21, 1955 from the Board of Governors to the Presidents of all Federal Reserve Banks, relating to banks' acquiring the stock of other banks in the course of absorbing the latter. As indicated in that letter, the procedure was developed some years ago chiefly for the purpose of gaining certain tax benefits, but the Internal Revenue Code of 1954 changed the situation in this respect so that the tax-avoidance reason for absorbing another bank through acquisition of its stock apparently no longer exists.

In the circumstances, the Board stated that it was inclined to look with disfavor upon the practice, except in unusual circumstances, since there appeared to be some possibility that it might violate the provision of R.S. 5136 that forbids national banks and member State banks to purchase corporate stocks.

The Board now has been informed by the Federal Reserve Bank of San Francisco that several member State banks in California contend that the practice of absorption via stock purchase results in benefits not related to tax avoidance. In addition, it is intimated that the Board's position would put member State banks in California at a disadvantage as compared with competing national banks, unless R.S. 5136 were similarly interpreted and applied in the supervision of national banks.

In view of this response, the Board proposes to reconsider its position. In connection with such reconsideration, the Board would appreciate being informed of your office's interpretation of the pertinent provision of R.S. 5136 and the manner in which that interpretation is applied to cases in which the stock is acquired on behalf of the bank (regardless of the source of the funds used for that purpose) by directors, officers, or other individuals in their own names, as well as cases in which the bank acquires the stock directly.

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Receipt of this information will aid in our common objective of consistent interpretations of statutes that apply to both national banks and member State banks. It will also assist the Board to weigh the claim that the Board's position places member State banks in California at a disadvantage compared with their national bank competitors. Any comments or views you may care to give the Board with respect to the problem generally also would be of great benefit.

Needless to say, members of the Board of Governors and of its staff are available at your convenience for discussion of any aspect of this matter.

Approved unanimously, together with a letter to Mr. Earhart, President, Federal Reserve Bank of San Francisco, advising that the views of the Comptroller of the Currency were being requested.

Letter to Mr. Lovett C. Peters, Financial Vice President, Continental Oil Company, Houston, Texas, reading as follows:

Your letter of October 26, 1955 states that a problem has arisen in connection with your company's restricted stock option plan. The Board's Regulation U does not permit banks to lend more than 30 per cent of the market value of stock when the purpose of the loan is to purchase stock listed on an exchange, and some of your employees are having difficulty in financing purchases under restricted stock options they have received from your company. You ask, in effect, whether credit for purchasing stock in such circumstances should not be exempted from the limitations of the regulation.

The Board has previously had occasion to consider the suggestion that such loans be exempted from the regulation, and is aware that some may feel very earnestly that such an exemption would be helpful in attracting and retaining key executives. The Board is not unmindful of that important consideration, but for the reasons outlined below it concluded that such a change in the regulation would not be appropriate.

The statutory directive to the Board in section 7 of the Securities Exchange Act of 1934 is stated generally as "preventing the excessive use of credit for the purchase or

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carrying of securities." The Act and its legislative history indicate that prevention of excessive speculation was among the aims of the legislation. However, the law and regulations are not intended to be limited to those stock purchases which might for some reason be considered more speculative than others.

Under the present regulation, executives who hold restricted stock options have the same privileges as all other persons. An amendment to the regulation to give them greater privileges, and ones which are not generally available to others, would seem to be concerned chiefly with problems of executive compensation rather than questions of credit or credit regulation. In view of the purposes of the credit regulations, such special credit privileges would not seem to be an appropriate means of attempting to solve problems which appear to be essentially non-credit in character.

Approved unanimously, with  
a copy to the Federal Reserve  
Bank of Dallas.

Letter for the signature of Vice Chairman Balderston to The Honorable Maxwell M. Rabb, Secretary to the Cabinet, The White House, Washington, D. C., reading as follows:

This is in reply to your memorandum of October 7, 1955, asking for a report on the inter-agency committees which are chaired by persons from this agency and on its public advisory committees.

A survey of the staff and of the members of the Board has revealed no inter-agency committees in which a representative of this agency serves in such a capacity. There is one inter-agency committee, however, on which the Board is represented that should be mentioned only to make certain it is not overlooked in your study. This is the Standing Inter-Agency Committee on Bank Supervision. A description of this committee is attached and you will note that no single agency has responsibility for chairing the committee. The agreement is that the agency calling a meeting of the committee acts as chairman.

The Board has no public advisory committees; although, in the interest of complete coverage, the existence of the Federal



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Advisory Council of the Federal Reserve System should be noted. This is a statutory body created by the provisions of Section 12 of the Federal Reserve Act and comprised of one representative from each Federal Reserve District appointed by the board of directors of the Federal Reserve Bank. This Council meets four times a year in Washington. It confers with the Board of Governors on business conditions and makes advisory recommendations regarding the affairs of the Federal Reserve System. Because of its nature and statutory origin, it does not appear to be in the category of public advisory committees included in the Committee Management Program.

The Board hopes this information will be helpful in your review of committee organization within the Government.

Approved unanimously.

Mr. Vest stated that at the request of Mr. R. J. Saulnier, member of the Council of Economic Advisers, made through Mr. Young, Director of the Division of Research and Statistics, he (Mr. Vest) and Mr. Solomon, Assistant General Counsel, attended a meeting yesterday which was called by the Council to discuss certain legislative proposals. He said that attendance at the meeting included representatives of the other Federal bank supervisory agencies, the Department of Justice, the Securities and Exchange Commission, and the Treasury in addition to the members of the Council of Economic Advisers, and that the purpose was to provide information for the Council for use in preparing the President's forthcoming Economic Report to the Congress. He also said the discussion related particularly to bill S.2054, which would amend the Securities Exchange Act of 1934 with respect to the regulation of unlisted securities, and the Celler bank merger proposals. With regard to S.2054, a representative of the

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Securities and Exchange Commission made a statement which he concluded by saying that the Commission had not yet reached a firm position, and Messrs. Vest and Solomon were not called upon for comment. With regard to the Celler bills, there was a rather lengthy discussion which brought out the different views of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on the one hand and the Board of Governors on the other. During this discussion, Mr. Vest said, he explained the position which had been taken by the Board. He went on to say that when Mr. Saulnier, seeking to ascertain whether there was any common ground among the agencies, expressed his understanding that all of the agencies felt there should be some Governmental approval of bank mergers and consolidations, it appeared from the responses that this was an accurate statement and that the differences of opinion were concerned primarily with questions of jurisdiction. Mr. Vest said that there was also a brief discussion of pending bank holding company legislation and that representatives of the Board and the Comptroller's Office joined in expressing general agreement with the objectives of the pending bills, while representatives of the Federal Deposit Insurance Corporation indicated that they had no objection. He concluded his comments by saying that according to Mr. Saulnier a draft of any paragraphs on the subjects discussed which were prepared for inclusion in the President's Economic Report would be sent to the various agencies concerned, including the Board, for comment.

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 16, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to the action taken by the Board on November 16, 1955, the first six of the following telegrams were sent on November 17 and the last two on November 18:

To Mr. Sproul, President, Federal Reserve Bank of New York

Reurtel today. Board approves effective November 18, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 3 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

To Mr. Wilgus, Cashier and Assistant Secretary, Federal Reserve Bank of Philadelphia

Reurtel today. Board approves effective November 18, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on advances to member banks under Section 10(b), and 3-1/4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

To Mr. Fulton, President, Federal Reserve Bank of Cleveland

Reurtel today. Board approves effective November 18, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on

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advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board is announcing change immediately.

To Mr. Bryan, President, Federal Reserve Bank of Atlanta

Reurtel today. Board approves effective November 18, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

To Mr. Dawes, Vice President and Secretary, Federal Reserve Bank of Chicago

Reurtel today. Board approves effective November 18, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

To Mr. Millard, Vice President, Federal Reserve Bank of San Francisco

Reurtel today. Board approves effective November 18, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on

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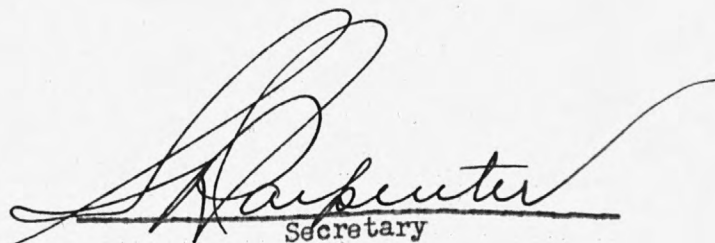
advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board is announcing change immediately.

To Mr. Powell, President, Federal Reserve Bank of Minneapolis

Reurtel today. Board approves effective November 21, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 3 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:30 p.m. EST today for immediate release.

To Mr. Hall, Chairman, Federal Reserve Bank of Kansas City

Reurtel today. Board approves effective November 21, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 3 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

  
Secretary