

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 5, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Fauver, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Vest, General Counsel  
 Mr. Sloan, Director, Division of Examinations

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

Memorandum dated November 23, 1955, from Governor Vardaman, recommending that Dolores Ann Winkler, Stenographer in the Division of Examinations, be transferred to the position of Stenographer in Governor Vardaman's office, with an increase in her basic salary from \$3,585 to \$3,670 per annum, effective as of the date on which she enters upon the performance of her new duties.

Approved unanimously.

Memorandum dated November 25, 1955, from Mr. Johnson, Controller, and Director, Division of Personnel Administration, recommending that Gordon P. Johnson, Messenger in the Division of Administrative Services, be transferred to the position of Messenger in the Board Members' Offices, with no change in his present basic salary of \$3,470 per annum, effective December 18, 1955.

Approved unanimously.

Memorandum dated November 23, 1955, from Mr. Marget, Director, Division of International Finance, recommending that permission be granted

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to Marjorie Kidd, Clerk-Stenographer in that Division, to work on Monday, Thursday, and Friday evenings for a local department store during the Christmas holidays.

Approved unanimously.

Letter to Mr. Sproul, President, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of November 18, 1955, the Board of Governors approves the continuation for a further period of six months ending June 30, 1956, of the payment of compensation to Dr. John H. Williams, as Consultant, at the rate of \$84.62 per day for each day he spends at the Bank or at a Federal Reserve or related meeting elsewhere, plus reasonable travel, lodging, and subsistence expenses.

Approved unanimously.

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

In accordance with the request contained in your letter of November 23, 1955, the authorizations heretofore given your bank to designate the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia are hereby canceled:

H. Leland Clifford	Joseph A. Maloy
William G. Dobos	Albert F. Preston
E. Thomas Hannum	Joseph E. Rebic
Paul E. Kirn	Robert Shaw
Alexander A. Kudelich	Norman Simpson
Anthony J. McKinley	Henry Wright

The Board approves the designation of the following named employees of your bank as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in the examinations of State member banks, except the bank indicated immediately above their names:

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The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania

H. Leland Clifford	Albert F. Preston
William G. Dobos	Norman Simpson
Alexander A. Kudelich	Henry Wright
Joseph A. Maloy	

Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania

Joseph E. Rebic

Provident Trust Company of Philadelphia, Philadelphia, Pennsylvania

Robert Shaw

Camden Trust Company, Camden, New Jersey

E. Thomas Hannum	Anthony J. McKinley
Paul E. Kirn	Robert Shaw

The Board also approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in the examinations of all State member banks and State banks applying for membership:

Charles W. Austin	Joseph F. Creachan
Gilbert S. Bayne	Edward Fitzpatrick
Cyril J. Bowman	Clarence King
Joseph A. Costello	John S. Sulima

Approved unanimously.

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

In accordance with the request contained in your letter of November 21, 1955, the Board approves the appointment of Jack N. Young as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

In accordance with the request contained in your letter of November 18, 1955, the Board approves the appointment of Charles Robert Klugherz, at present an assistant examiner, as an examiner for the Federal Reserve Bank of San Francisco.

Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

In reviewing the 1954 annual report to the Board of New Hampshire Bankshares, Inc., Nashua, New Hampshire, it has been noted that the corporation in that year paid dividends in the amount of \$330.97 in excess of its actual net earnings in violation of paragraph 7 of its voting permit application and subsection (e)(4) of Section 5144 R.S.

During 1954, the corporation changed its accounting procedure in two respects; i.e., (1) it established a reserve for Federal income taxes on income for the current year, and (2) it wrote up its investments in its subsidiary banks.

Heretofore, the corporation has charged current income with the Federal income taxes applicable to earnings of the immediately preceding year. This was done in 1954; but, in addition, surplus was charged for the establishment of a \$1,500 reserve for Federal income taxes applicable to earnings for 1954. The accrual in that year represents a charge against actual net earnings for the year.

Paid-in surplus of the holding company affiliate is shown in a separate account. Prior to 1954, the holding company affiliate's balance of actual net earnings has been consistently equal to the balance in its earned surplus account, or the balance in earned surplus plus the "Reserve for Section 5144 R.S." In 1954, however, as a result of the writing

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up of its investments in subsidiary banks, the surplus account which was formerly earned surplus now is a combination of earned surplus and surplus from the increase in equity in net assets of subsidiaries. Surplus from increase in equity in net assets of subsidiaries is unrealized and, therefore, represents in no way a part of actual net earnings as that term is used in Section 5144 R.S. The analysis of surplus (excluding paid-in surplus) for the year 1954, and the analysis of the deficit in the corporation's balance of actual net earnings at December 31, 1954, are shown in the enclosed schedule.

The holding company affiliate has appropriated from surplus the amount of \$335.85 designated as a "Reserve for Section 5144 R.S." Section 5144 R.S. provides, under certain circumstances, for the establishment of a "reserve of readily marketable assets," but the amount of the related appropriation from surplus need not be deducted in arriving at the balance of actual net earnings.

Please advise New Hampshire Bankshares, Inc. concerning the above matters and inform it that the Board will expect that its dividend payments in 1955 and succeeding years will be no greater than its actual net earnings, after deduction of the deficit of \$330.97 in actual net earnings at December 31, 1954.

Approved unanimously.

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

Reference is made to your letter of November 18, 1955, with respect to the program of remodeling and improving banking premises of the West Branch Bank and Trust Company, Williamsport, Pennsylvania, which would involve an investment exceeding the bank's capital and hence require the approval of the Board of Governors under Section 24A of the Federal Reserve Act.

After considering the information submitted, the Board of Governors approves an additional investment of \$143,100 in banking premises by the West Branch Bank and Trust Company, Williamsport, Pennsylvania.

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It is understood that reductions are to be made in this investment during the year 1955 to an amount less than the bank's capital.

Approved unanimously.

Letter to the Board of Directors, Tyler Bank and Trust Company, Tyler, Texas, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves the establishment of a branch by Tyler Bank and Trust Company, Tyler, Texas, at 118 West Locust Street, Tyler, Texas, provided the branch is established within six months from the date of this letter.

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

Letter to the Board of Directors, Alaska National Bank of Fairbanks, Fairbanks, Alaska, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law (for this purpose, the law of the Territory of Alaska), as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the Territory of Alaska, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System. This authority so granted shall be effective as at the close of business September 1, 1955, the date the Alaska National Bank of Fairbanks was authorized by the Office of the Comptroller of the Currency to commence business.

It is noted that the resolution of the bank's board of directors and the application itself contain the statement

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that the application is made "for and on behalf of Alaska National Bank of Fairbanks, into which this bank will convert". Obviously these words were included because it was expected that the application would be made by the Bank of Fairbanks prior to its conversion into a national bank, and were inadvertently left in when the national bank itself executed the application. In the circumstances, the Board of Governors considers the quoted words to be surplusage and regards the application as one made by Alaska National Bank of Fairbanks on its own behalf. It is assumed that this will be satisfactory to you.

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

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each of these forms is attached:

Number of  
copies

Form F.R. 105 (Call No. 138), Report of condition of State member banks.

Form F.R. 105a (Revised November 1955), Instructions for preparation of reports of condition by State member banks of the Federal Reserve System.

Form F.R. 105e (Revised November 1955), Publisher's copy of report of condition of State member banks.

Form F.R. 105e-1 (Revised November 1955), Publisher's copy of report of condition of State member banks.

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Number of  
copies

Form F.R. 105e-2 (Revised November 1955), Publisher's copy supplement.

Form F.R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form F.R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

Most of these forms have been revised since the fall call date, October 5, 1955, but the changes in the publisher's copies of report of condition (forms F.R. 105e and 105e-1) and publisher's copy supplement (form F.R. 105e-2) are minor, reflecting only the renumbering of items due to the deletion from the report of condition of "Obligations subordinated to claims of depositors and other creditors, not included in liabilities". Revisions made in the report of condition (form F.R. 105) and in the related instructions are described in an attachment. The remaining forms, F.R. 220 and 220a, are unchanged.

Pursuant to views accepted at the Conference of the Presidents of the Federal Reserve Banks held on June 20-21, 1955, it is suggested that the substance of the following paragraphs be included and emphasized in your letter transmitting the year-end call report forms to State member banks:

Accuracy in the preparation of reports of condition is useful not only to the reporting bank in making comparisons of its own position in relation to compilations of banks in its own State, Reserve District, or reserve classification, but also to bank supervisory agencies. To discharge their responsibilities in the field of money, banking, and credit, the Federal Reserve Banks and the Board of Governors of the Federal Reserve System must keep themselves informed of the condition of the individual banks, as well as of the banking structure as a whole as revealed by statistical compilations prepared from condition reports. Reports of condition are a basic source of essential information

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in determining the need for policy action and the effects of action taken which have a bearing on the operations of member banks.

It is realized that an accurate classification of loans in Schedule A of reports of condition presents special reporting difficulties and will require time and effort on the part of each individual bank. However, inaccurate reports will fail to reflect the real changes in bank holdings of loans and might result in misinterpretation of banking and economic developments. To facilitate the reporting of accurate figures, Schedule A has been revised by arranging the items in a more logical order and by giving more nearly precise captions to many of the items. The related instructions have been carefully revised to the same end. A description of the revisions is enclosed.

Approved unanimously, with the understanding that the letters would be sent when the forms were printed.

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 October 3, 1955, enclosing photostatic copies of an application to organize a national bank at Fort Benning, Georgia, and requesting a recommendation as to whether or not the application should be approved.

According to information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta, the proponents plan to provide a capital structure of \$450,000 for the bank instead of \$500,000 as shown in the application. This report discloses generally favorable findings with respect to the factors usually considered in connection with such proposals, except that arrangements have not been made for the operating management of the bank. The Board of Governors, therefore, recommends approval of the application provided arrangements are made for management satisfactory to your office.

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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 Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Reference is made to your letter of November 18, 1955, concerning the application of The Commercial Bank, Chilton, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which, in the opinion of the Board of Governors, it would be considered desirable to incorporate as conditions to the continuance of deposit insurance.

Approved unanimously.

Letter to the Honorable Rafael Pico, Secretary of the Treasury, Commonwealth of Puerto Rico, San Juan, Puerto Rico, reading as follows:

The Chase Manhattan Bank, New York, New York, has filed an application for permission to establish a branch at 1012 Munoz Rivera Avenue in the Rio Piedras section of the city of San Juan, Puerto Rico.

The applicant states that it already has very substantial banking business from the Rio Piedras section, with loans originating from the area of approximately \$6,500,000 and deposits of approximately \$3,000,000. The bank states that it serves in excess of 4,300 clients in the district and handles a substantial number of documentary collection items in the area. The applicant anticipates that within the next two years its banking business from the Rio Piedras section will register a sharp increase as the bank has given firm commitments for and is currently processing 2,300 FHA mortgages in the area with a total loan value of approximately \$14,000,000. This new financing mainly relates to the IBEC and Villa Nevares housing projects and will increase

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the present total loan portfolio of its Puerto Rican Branches by approximately 50 per cent.

The applicant states that new housing developments in the Rio Piedras section have been planned to include important commercial areas which will call for banking facilities which can be provided from the site proposed. It is reported that the Rio Piedras area is the fastest growing community in the Commonwealth of Puerto Rico, and that the proposed location will enable the applicant to serve not only nearby individuals and businesses but also a wide area extending east and west of the city proper.

Your letter of October 18, in reply to the Board's inquiry of September 13, 1955, concerning the application filed by The First National City Bank of New York for permission to establish a branch in the Rio Piedras area in San Juan, states that The Chase Manhattan Bank had submitted a similar proposal to the Commonwealth of Puerto Rico and that, although your investigation had not been concluded, your reaction to granting the request was favorable. It will be appreciated, therefore, if you will advise the Board of Governors if you know of any reasons why the application of The Chase Manhattan Bank to establish the proposed branch should not be approved.

In your letter of October 18, you mentioned that the permanent location which The First National City Bank of New York proposes to occupy is in the immediate proximity of the location now under consideration for the proposed branch of The Chase Manhattan Bank and that The First National City Bank proposes to establish its branch temporarily in the congested downtown area of Rio Piedras, probably in the quarters Banco Credito y Ahorro Ponceno will vacate when moving into larger premises approximately two blocks distant. In view of these circumstances, you indicated that your Department was unable to regard favorably The First National City Bank proposal to establish a branch in Rio Piedras.

From your comments it is not entirely clear as to the basis for your Department's views regarding the proposal of The First National City Bank, particularly as to whether your objections related to the temporary locations proposed or the permanent location, or both. However, The First National City Bank has now advised that the intended location

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of the proposed branch is in the premises of the former branch of Banco Credito y Ahorro Ponceño, a few feet south of the intersection of Avenida Ponce de Leon and Calle Jose de Diego on the western side of Avenida Ponce de Leon. This is one of the alternate temporary sites originally proposed. It is understood that the applicant recognizes that this is not the most desirable location and it is surveying other possibilities for the future, which, of course, would be taken up with the Board later, if found. The bank desires to open a branch in the former Banco Credito location, among other reasons it is understood, to take care of customers formerly served by its armored truck service which was recently discontinued at the request of the Board of Governors. Accordingly, consideration at this time is being given only to the matter of a branch to be located near the intersection of Avenida Ponce de Leon and Calle Jose de Diego. Should an application subsequently be received for permission to change the location, the Board would expect to request your views regarding the proposal.

The Chase Manhattan Bank has furnished a map of San Juan on which the proposed site of the Rio Piedras Branch has been marked. As may be noted from the photostat of the excerpt enclosed, the map bears a red pencil notation regarding Avenida Luis Munoz Marin and Calle Munoz Rivera, as follows: "Names of these two streets will probably be changed." The Chase Manhattan Bank has subsequently advised that Avenida Luis Munoz Marin has been changed to Avenida Munoz Rivera and that the street appearing on the map as Calle Munoz Rivera has been redesignated as a continuation of Avenida Ponce de Leon. The Chase Manhattan Bank has further advised that the proposed site of its branch is opposite the Darlington Apartments shown on the map and that the proposed site is approximately 375 feet south of the intersection of Julian Blanco and Avenida Munoz Rivera.

It would appear that the locations proposed by the two banks are approximately one-quarter mile apart, situated on separate principal streets in Rio Piedras. It would be helpful to the Board in reaching a conclusion regarding the desirability of granting or withholding the requested authority if you would furnish your further views on the matter, particularly as to the present and prospective commercial development in the immediate vicinity of the locations of the proposed branches and the extent of the industrial and residential area which reasonably may be expected to be served from such locations.

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From the standpoint of chronology, the application of The Chase Manhattan Bank should be regarded as having been filed originally in early 1954, but, in view of the reported need for both branches based on information submitted by the applicants, it would not appear that this is an important consideration. In reviewing the application of The First National City Bank of New York, it would also seem appropriate to bear in mind that the bank recently discontinued its armored truck service at the request of the Board of Governors, and that as a result this area now may be able to support additional banking services.

The fine spirit of cooperation which you and Mr. Descartes have manifested in exchanging views with the Board regarding mutual problems is much appreciated and the Board would very much like to have the benefit of your comments regarding the current application of The Chase Manhattan Bank and your further views regarding the application of The First National City Bank of New York, both for permission to establish branches in the Rio Piedras section of San Juan, pursuant to the provisions of Section 25 of the Federal Reserve Act.

Approved unanimously.

Letter for the signature of Chairman Martin to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This is in response to your letter of November 18, 1955, requesting an expression of views with respect to the following papers enclosed with your letter: (1) Draft Executive Order, headed "Revoking Executive Order No. 10160"; (2) letter of the General Counsel of the Office of Defense Mobilization, transmitting the proposed Order to the Bureau of the Budget; and (3) document headed "Preservation of wage and salary records under Defense Production Act."

It is understood that the proposed Executive Order would revoke Executive Order No. 10160 of September 9, 1950, which required the keeping of certain records with respect to prices, wages, and salaries for the period May 24, 1950 to June 24, 1950; and that a rescission of that Executive Order would be followed by a regulation terminating requirements for keeping wage and salary records for the 1951-1953 period of controls.

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This is a matter with which the Board of Governors is not directly concerned and it has no comments to make with respect to the actions contemplated by the papers enclosed with your letter.

Letter for the signature of Chairman Martin to Mr. Raymond T. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, Washington, D. C., reading as follows:

This refers to your memorandum of November 23 enclosing a proposed report entitled "Survey of the End-Use Value of Foreign Economic and Commercial Reporting."

The Board of Governors has no further comment on the subject matter of the report.

Approved unanimously.

Letter to Mr. James M. Mitchell, Associate Director, National Science Foundation, Washington, D. C., reading as follows:

This is in reply to your letter of October 31 to Chairman Martin asking for our comments on the draft copy of the Foundation's report "Organization of the Federal Government for Scientific Activities."

Pages 201 and 202 of the draft copy regarding the activities of the Board of Governors of the Federal Reserve System have been reviewed. There is enclosed a brief memorandum summarizing the suggestions offered for your consideration. The opportunity to comment on your draft is appreciated.

Approved unanimously.

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

Reference is made to your letter of November 16, 1955, submitting an application on behalf of the Public Bank, Detroit, Michigan, a proposed State bank in process of being organized, for membership in the Federal Reserve System.

It is noted that the proposed executive management is unsatisfactory to the Federal Reserve Bank of Chicago and

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that, consequently, its recommendation regarding this application is unfavorable.

The Board of Governors, having considered the information submitted and the adverse recommendation of the Federal Reserve Bank of Chicago, has concluded that favorable action should not be taken with respect to this request for membership. It is suggested that you advise the applicants of this conclusion so that they will have an opportunity to withdraw their request before the Board takes final action thereon. In the event, however, that the applicants desire a formal disposition of the application, please so advise the Board.

Approved unanimously.

In connection with the foregoing letter Governor Robertson stated that the above letter gives the applicants an opportunity to withdraw their application which would make it unnecessary for the Board to deny it, but that if it is not withdrawn and the Board should eventually disapprove the application, the Board's action might be legally contested.

There was then presented a letter, which had been circulated to the members of the Board prior to this meeting, to Mr. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with your letter of November 9, 1955, the Board of Governors approves the following minimum and maximum salaries for the respective grades at the Head Office, and Denver, Oklahoma City, and Omaha Branches, effective January 1, 1956:

Head Office and Denver Branch

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$ 1860	\$ 2520
2	2100	2820
3	2340	3120

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Head Office and Denver Branch

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
4	\$ 2580	\$ 3480
5	2880	3900
6	3240	4380
7	3660	4920
8	4080	5460
9	4500	6060
10	5040	6840
11	5640	7620
12	6360	8580
13	7080	9600
14	7920	10740
15	8880	12000
16	9960	13380

Oklahoma City Branch

1	\$ 1800	\$ 2400
2	1980	2640
3	2220	2940
4	2460	3300
5	2700	3660
6	3060	4140
7	3420	4620
8	3840	5160
9	4260	5760
10	4800	6480
11	5340	7200
12	6000	8040
13	6720	9000
14	7500	10080
15	8400	11280
16	9360	12660

Omaha Branch

1	\$ 1800	\$ 2400
2	2040	2700
3	2280	3060
4	2520	3420
5	2820	3780
6	3180	4260
7	3540	4740
8	3900	5280
9	4380	5940

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Omaha Branch

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
10	\$ 4920	\$ 6660
11	5460	7380
12	6120	8280
13	6900	9300
14	7680	10380
15	8640	11640
16	9660	13020

The Board understands that these adjustments in structure are not expected to result in salary expenditures in such an amount as to exceed the funds provided for in the Reserve Bank's 1956 budget.

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 range as soon as practicable and not later than March 1, 1956.

Before this meeting Governor Balderston had questioned whether any Federal Reserve Bank should have salary schedules with minimum salaries below the minimum that would be applicable under the wage and hour law soon to become effective even if all salaries paid were above the legal minimum. It had been suggested that this matter be the subject of a separate letter to all the Federal Reserve Banks that have such schedules. Governor Balderston had concurred with this suggestion and at this meeting proposed that the above letter be approved. It was also stated that the Kansas City Bank would like to have advice of the Board's action on the proposed schedules before the meeting of their Board of Directors on December 7 for the

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reason that if the schedules were approved the directors proposed to act on employee salary increases.

The proposed letter was approved unanimously.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

St. Louis	November 28
Kansas City	November 29
Atlanta	November 30
New York	December 1
Philadelphia	December 1
Cleveland	December 1
Chicago	December 5

Approved unanimously.

Reference then was made to the following letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, regarding existing legislative provisions which would expire on certain future dates, principally in 1956:

This refers to your letter of November 17, 1955, enclosing a list of existing legislative provisions which will expire on certain future dates, principally in 1956, and asking that the Board indicate (a) those items of primary concern to the Board on which it is prepared to assume leadership in presenting to Congress proposals for extension of the legislation; (b) items which may have been omitted from the list; and (c) items on which the Board recommends against extension of the legislation. It is noted that replies to your request will not be considered as final views or reports and are to be used only to help identify issues requiring further consideration.

One of the items on your list of special interest to the Board is the authority of Federal Reserve Banks under section

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14(b) of the Federal Reserve Act to purchase Government securities directly from the Treasury in amounts not exceeding \$5 billion (Public law 450, 83d Cong.), which will expire on June 30, 1956 unless again extended by the Congress. It is the view of the Board that this authority, which has been contained in the law since 1942, is desirable and helpful in the conduct of Federal Reserve policy and should be continued. In 1954, when this authority was last renewed, the necessary legislation was proposed by the Treasury Department.

Another item in which the Board has a special interest is any proposal for the extension of the Defense Production Act beyond its present expiration date of June 30, 1956, in view of the provisions of Title III of that Act which authorize Government guaranteed loans for defense production under the Board's Regulation V. The Board assumes that any proposal for a further extension of the Defense Production Act, which presumably would be sponsored by other agencies, would include continuation of authority for the V-loan program.

The Board knows of no legislative items which were omitted from the list accompanying your letter or with respect to which the Board would be disposed to recommend against extension.

Approved unanimously.

At the meeting of the Board on November 23, 1955, it was understood that the Division of Examinations would clarify the definition of the symbol "fair" in a draft of letter proposed to be sent to the Presidents of all the Federal Reserve Banks. A revised draft of letter containing such a clarification had been circulated to the Board prior to this meeting.

After a brief discussion, the draft of letter and enclosure were approved unanimously as follows:

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This letter supplements the Board's letter of August 11, 1952, (S-1465, F.R.L.S. #3593) with reference to the management rating component of the uniform system for rating member banks. For some time consideration has been given to possibilities for clarifying the intended meaning and applicability of the management rating symbols to the end that their use would be less subject to misinterpretation and, consequently, their significance enhanced. Following study of this matter, and after consideration of the views of the Reserve Banks responding to preliminary proposals submitted by the Board's Division of Examinations, it has been decided that the desired purposes would be best accomplished by retention of the rating symbols presently authorized, but with revised and expanded definitions. Accordingly, new definitions to supplant those appearing in the above-mentioned letter have been approved for immediate use; a copy of the newly defined management ratings is enclosed.

It is hoped that the new definitions will contribute to a fuller understanding of the rating symbols and their more significant application in rating member bank managements.

#### MANAGEMENT RATINGS

##### S - "Satisfactory"

A "satisfactory" management (directorates and active officers) is adequate to all its responsibilities and has the ability to cope successfully with existing or foreseeable problems. It is a safe and competent management which has established a satisfactory record of performance in the situation in which it is found.

Note: The "S" rating does not necessarily connote a management which is superior or excellent, or representing experience or competence greater than required in the particular bank under review. New and untried management may be accorded an "S" rating pending demonstration of satisfactory performance, providing other related circumstances and disclosures do not indicate the use of a lower rating.

##### F - "Fair"

A "fair" management lacks in some measure the competence desirable to meet the problems of the situation in which it is

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found. Either it is characterized by mediocrity when above-average capabilities are called for, or it is distinctly below-average for the same type and size of bank. An "F" rated management may be safe at the moment but criticizable features of the bank's operations outweigh more favorable factors, and abilities to correct existing unsatisfactory conditions or trends are not impressive.

Note: The "F" rating does not connote satisfactory management (which is rated "S"). In all cases where it is assigned, management is lacking in some rather important respects, but deficiencies are not sufficient to warrant the "P" rating. (Lack of adequate succession arrangements may, in some cases, be cause for assigning the "F" rating to an otherwise satisfactory management.) Banks with an "F" management rating would be accorded a composite rating no better than "2"; they often may warrant a "problem" rating because of a current unsatisfactory asset condition or capital position, or they may present rather strong evidence of deteriorating into that category unless improvement in management performance can be brought about promptly in response to supervisory action.

P - "Poor"

The description assigned the "P" rating is self-explanatory. The rating should be reserved for those cases where incompetency has been demonstrated or where management deficiencies are of such seriousness that the over-all characterization of "poor" is amply justified. In the cases so rated, problems resulting from management weakness or incompetence create so unsatisfactory a condition that management may need to be strengthened or replaced before sound bank condition may be brought about.

The Board then considered a memorandum from Messrs. Carpenter and Vest dated November 23, 1955, relative to the status of the industrial advisory committees of the Federal Reserve Banks. Mr. Vest summarized the replies of the Reserve Banks to the Board's letter of September 13, 1955, asking the views of the Banks with respect to the appointment of the industrial advisory committees in the light of the provisions of the

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statute and of the fact that a number of the Reserve Banks had received no industrial loan applications for a considerable period. The replies received from the Reserve Banks indicated that six Banks would be satisfied with the present arrangement although of these six, three would not object to having committees of three members. Four other banks would definitely prefer committees of three members. The remaining two Banks would prefer not to make further appointment of industrial advisory committees memberships until the need arises for the services of such committees, at which time appointments could be made on an ad hoc basis.

Mr. Vest went on to say that the Board's Regulation S, Industrial Loans by Federal Reserve Banks, provides for committees of five although the New York Bank has been operating with a committee of only three members since 1944. Mr. Vest suggested that the Board had four alternative courses: (1) make no change in the present arrangements; (2) suggest to the Federal Reserve Banks that no further annual appointments of committees be made until the need arises for the services of such committees; (3) provide for the annual appointment of three-man committees or either three- or five-man committees at the option of the Reserve Banks; and (4) in addition to the provision for such committees provided in alternative (3), give the Federal Reserve Banks the option of not making the annual appointments in cases where the Banks feel there is no need, with the understanding that appointments would be made at any time when the need arises.

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There followed a general discussion on the present inactive status of the industrial advisory committees. Governor Mills pointed out that the committees were supernumeraries and that in his opinion the fourth alternative would retain the committees in skeleton form and at the same time evidence the System's real interest in adequate arrangements under the law for meeting the working capital needs of small business.

Governor Balderston said that he shared this view and that it was a serious reflection on any organization to have meaningless committees. He thought that until such time as section 13(b) was changed it might be sufficient to appoint only a chairman with the understanding that if there were a need for the services of such a committee, the rest of the committee would be appointed on an ad hoc basis.

Governor Robertson said he saw no need for the committees. He thought there might be sufficient compliance if a list were to be maintained by the Reserve Banks of qualified persons from which committee appointments could be made to consider actual cases that arose.

Governor Szymczak added he felt no harm could come from having the committees in existence as provided by the law and that the System might be in a better position if it maintained the present arrangement.

In response to a question by the Chairman whether the Board was compelled to act at this time, Mr. Vest replied that it was not. Since the Reserve Banks had been asked for their views, however, they would no doubt be expecting some guidance.

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It was then suggested that Mr. Vest draft and submit to the Board a letter to the Reserve Banks along the lines of the discussion at this meeting.

This suggestion was approved unanimously.

Governor Robertson then referred to a memorandum addressed to him under date of December 5, 1955, by Messrs. Sloan and Vest with respect to the recent acquisition of the stock of the First National Bank of Lovelock, Nevada, by Transamerica Corporation and the application submitted to the Comptroller of the Currency for permission to merge the acquired bank into the First National Bank of Nevada, Reno, Nevada, of which Transamerica Corporation is a holding company affiliate. The memorandum contained the following paragraphs:

Mr. Jennings said that it had first been thought that the merger of these two institutions would take place without any stock acquisition by Transamerica, and the Comptroller of the Currency had indicated that he would approve such a merger. In this connection, the Comptroller stated that the community of Lovelock was not being adequately served from a banking standpoint and that the community would be better served if the Lovelock bank were a branch of the First National Bank of Nevada. The State authorities agreed with this position. However, the president of the Lovelock bank was unwilling to proceed in the manner first proposed but said he had no objection to the purchase of the stock of his bank by Transamerica Corporation, and this was done. In the circumstances, Mr. Jennings has advised Governor Robertson that before the Comptroller's Office takes action on the application for its approval of the merger he wished to afford the Board an opportunity to consider the matter from the standpoint of section 7 of the Clayton Act.

The facts of this matter briefly are as follows: When the Board brought its proceeding against Transamerica Corporation in

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1948, Transamerica owned banks controlling approximately 78.5 per cent of commercial bank deposits in the State of Nevada. The percentage has been down slightly from that figure but is still approximately the same.

With the acquisition of First National Bank of Lovelock, Transamerica controls three banks in Nevada which, as of June 30, 1955, were operating 21 offices with deposits approximating \$220,157,000. This control represents 65.6 per cent of the 32 banking offices of the 8 commercial banks in Nevada and 77.8 per cent of the \$283,029,000 of their deposits. The acquisition of the Lovelock bank has increased the holding company affiliate's percentage of offices from 62.5 per cent to 65.6 per cent and its percentage of deposits from 76.5 per cent to 77.8 per cent.

There seems to be no application of section 7 of the Clayton Act (prohibiting stock acquisitions which result in a substantial lessening of competition) to the local situation in Lovelock because there is only one bank there now. That bank, which has heretofore been an independent bank, will now be taken over by the First National Bank of Nevada, a Transamerica subsidiary. From the standpoint of the entire State area, the deposits of the acquired bank are relatively very small, being less than \$4 million as against a total of \$280 million in the State. The acquisition, therefore, has little statewide significance. It is not easy to see, therefore, what area might be selected as the "area of effective competition" which could be successfully used as a basis for any possible Clayton Act proceeding in this situation. Lovelock is some 75 miles from Reno and over 50 miles from the closest bank. A call to the Comptroller's Office indicates that there is nothing to suggest the existence of substantial competition between the Lovelock bank and other banks in the State and, accordingly, it would not seem that the acquisition of this bank by Transamerica Corporation could result in any substantial lessening of competition. Moreover, the situation in Nevada was fully covered as a statistical matter in the Transamerica proceeding, in which the Board issued a divestment order that was upset by the courts. In the circumstances, there seems to be little to suggest that the Board should take action under section 7 of the Clayton Act in this situation.

Governor Robertson stated that he fully agreed with the position taken in the memorandum. In the ensuing discussion of the difficulties

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involved in the administration of section 7 of the Clayton Act in its present form and the desirability at an appropriate time of amendments to the statute, other members of the Board indicated that while they would concur with the position taken in the memorandum they would not want to be foreclosed by such action from later taking the position that section 7 of the Clayton Act is not enforceable in its present form and should be amended.

Chairman Martin suggested that this matter was one that should be considered by all of the members of the Board and it was agreed unanimously that copies of the memorandum from Messrs. Sloan and Vest would be sent to all members of the Board and that the matter would be placed on the agenda later this week so that Mr. Vardaman could express his views before he left and a final decision could be reached following Governor Shepardson's return.

Messrs. Vest and Sloan withdrew from the meeting at this point.

The Board then resumed its consideration of appointments of Federal Reserve directors for the coming year which had been discussed at its meeting on November 29.

It was voted unanimously to reappoint Mr. Franz Schneider as a Class C director for the Federal Reserve Bank of New York for the three-year term beginning January 1, 1956.

Chairman Martin reported on his conversation with Mr. Coleman regarding the appointment of a Class C director at the Federal Reserve Bank of Chicago and a Deputy Chairman for 1956 as well as filling the vacancy

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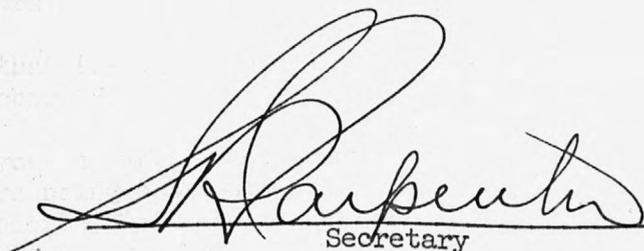
for the Detroit Branch board. It was understood that the matter would be taken up again on Governor Vardaman's return.

Chairman Martin indicated that the name of Mr. J. D. Monin, Jr. of Oakland, Kentucky, had been suggested for the vacancy on the Louisville Branch board. It was understood that a biography of Mr. Monin would be distributed.

Messrs. Thurston, Carpenter, and Fauver then withdrew from the meeting and the Board went into executive session.

The Secretary's Office was later informed that the Board had agreed unanimously not to reappoint Mr. Swensrud as a Class C director at the Federal Reserve Bank of Cleveland inasmuch as he had had almost four-years of service as a director of the Pittsburgh Branch and three-years as a director of the Cleveland Branch, and the Board was endeavoring to change directors more frequently than in the past. It was understood that the Chairman would send a letter to Mr. Swensrud to this effect.

The meeting then adjourned.

  
Secretary