

Minutes for January 9, 1956.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u><i>MM</i></u>	_____
Gov. Szymczak	x <u><i>MS</i></u>	_____
Gov. Vardaman	_____	x <u><i>(V)</i></u>
Gov. Mills	x <u><i>(M)</i></u>	_____
Gov. Robertson	x <u><i>R</i></u>	_____
Gov. Balderston	x <u><i>CCB</i></u>	_____
Gov. Shepardson	x <u><i>CS</i></u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 9, 1956. 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. Shepardson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Bethea, Director, Division of Administrative Services
 Mr. Vest, General Counsel
 Mr. Marget, Director, Division of International Finance
 Mr. Horbett, Associate Director, Division of Bank Operations
 Mr. Noyes, Assistant Director, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Dembitz, Assistant Director, Division of International Finance
 Mr. Cherry, Legislative Counsel
 Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance
 Mr. Brill, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics

Governor Szymczak referred to the Board's letter of December 9, 1955, to Mr. Robert Bruce Snow, Counsel to the American Investment Company, Springfield, Illinois, in which the Board held that loans by The Chase Manhattan Bank, New York, New York, as corporate trustee to the

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retirement trust of American Investment Company, to enable employees of the company, and of its subsidiaries, to purchase registered common stock of the company secured by such stock would be subject to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. He stated that during the afternoon of Friday, January 6, representatives of The Chase Manhattan Bank met with Messrs. Vest, Solomon, and Shay to discuss the matter and left a letter to the Board dated January 6, 1956, requesting reconsideration of the letter to Mr. Snow. It appeared that because of the Board's letter the bank had been removed as the corporate trustee of the trust, that employee loans from the retirement trust were to be made starting today, and that the bank would like to continue as trustee pending reconsideration of the matter by the Board.

In a discussion of the situation, Mr. Vest said that in the opinion of the Legal Division there should be no change in the position of the Board as stated in its letter of December 9.

It was then suggested that the Legal Division prepare a memorandum on the subject as the basis for further discussion at a meeting of the Board this afternoon at 3:00, and there was agreement with the suggestion.

Mr. Shay withdrew from the meeting at this point and Messrs. Young, Director, Division of Research and Statistics, and Hersey, Chief, Special Studies Section, Division of International Finance, entered the room.

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Mr. Noyes, who spent the year 1955 in Europe as an Eisenhower Exchange Fellow, commented on observations made during the course of his studies, which were directed toward reviewing how monetary and credit policies of the central banking authorities in various European countries operate to affect the flow of funds and the cost and availability of credit in the respective countries.

Mr. Brill, who returned to the Board's offices in the latter part of 1955 after spending several months in Europe as the recipient of a Rockefeller Public Service Award, then commented on his studies, which related to the nature and scope of research on monetary problems being conducted in European countries, particularly at central banks and ministries of finance.

During the course of a discussion based on the statements by Messrs. Noyes and Brill, Mr. Thomas and Mr. Cherry withdrew from the meeting. At the conclusion of the discussion, Messrs. Vest, Marget, Solomon, Dembitz, Tamagna, and Hersey also withdrew and Messrs. Sloan, Director, and Masters, Assistant Director, Division of Examinations, entered the room.

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 stated:

Telegrams to Mr. Sprague, Federal Reserve Agent, Federal Reserve Bank of Boston, authorizing, subject to the following conditions, the issuance of general voting permits, under the provisions of section 5144 of the Revised Statutes of the United States, to The National Shawmut Bank of Boston and Shawmut Association, Boston, Massachusetts, entitling each organization to vote the stock which it owns or controls of The

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Brockton National Bank, Brockton, Massachusetts, at all meetings of shareholders of such bank:

The National Shawmut Bank of Boston

(1) Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190), except that paragraph 3 shall be modified in manner stated in paragraph number (3) of S-964; and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Shawmut Association, Boston, Massachusetts, the general voting permit authorized in Board's telegram of this date.

Shawmut Association

(1) Prior to the issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190); and (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to The National Shawmut Bank of Boston, Boston, Massachusetts, the general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Telegram to Mr. Crane, Federal Reserve Agent, Federal Reserve Bank of New York, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to First Securities Corporation of Syracuse, Syracuse, New York, entitling such organization to vote the stock which it owns or controls of The First National Bank of Marcellus, Marcellus, New York, and The First National Bank of Weedsport, Weedsport, New York, at any time prior to April 1, 1956, at the annual meetings of shareholders of such banks, or any adjournments thereof, or at any special meetings of shareholders of such banks, (1) to elect directors and act upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks, (2) to take actions which may be necessary to effect, by merger or otherwise, the proposed transfers of assets of such banks to, and the assumption of liabilities of such banks by, First Trust and Deposit Company, Syracuse, New York, and (3) to take any actions which may be necessary to effect liquidation or dissolution of such banks.

Approved unanimously.

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Letter to The First National City Bank of New York, New York, New York, reading as follows:

In view of the request contained in your letter of December 16, 1955, addressed to the Federal Reserve Bank of New York, a copy of which has been furnished to the Board of Governors, and on the basis of the information contained therein, the Board extends to December 31, 1956, the time within which you may establish a second branch in Panama City, Republic of Panama, to be located in a building to be erected by Cia. Ford at the corner of Avenida Justo Arosemena and Calle 35, under the authority granted in the Board's letter of April 5, 1955.

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

Letter to the Board of Directors, California Bank, Los Angeles, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the vicinity of the intersection of Sunset and Service Avenues, West Covina, California, by the California Bank, Los Angeles, California, provided the branch is established within one year from the date of this letter and that the approval of the State authorities is effective at the time the branch is established.

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

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

Boston	January 3
San Francisco	January 4
New York	January 5
Philadelphia	January 5
Cleveland	January 5

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Atlanta	January 5
Minneapolis	January 5
Kansas City	January 5
Dallas	January 5

Approved unanimously.

At this point Messrs. Leonard, Director, Division of Bank Operations, Johnson, Controller, and Director, Division of Personnel Administration, and Koch, Assistant Director, Division of Research and Statistics, entered the room. Mr. Thomas also returned to the meeting at this point.

There had been circulated to the members of the Board proposed letters (1) to a group of 35 selected banks requesting data on common stock transactions for a sample of larger personal trusts as part of the information which the Board had been asked to obtain for the Senate Banking and Currency Committee in connection with the Committee's current studies concerning the impact of institutional investment on the stock market, (2) to the Presidents of the Federal Reserve Banks in those districts where the selected banks are located, and (3) to the Presidents of the other Reserve Banks transmitting copies of the first two letters for their information.

Comments by the staff emphasized the desirability of obtaining better trust department statistics to improve the System's economic information. While the limited material on common stock transactions being developed for the Senate Committee would not produce the kind of information needed in a longer-range program of trust statistics for the purpose of capital markets analysis, discussions with commercial banking spokesmen

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in reference to the Committee's request were said to have been heartening in that they indicated a greater awareness of the need for statistical information and a greater willingness to cooperate than had been observed previously. In the circumstances, it was hoped that progress could be made in the development of an adequate reporting program.

Thereupon, unanimous approval was given to letters reading as follows:

To the banks included in the special survey for the Senate Banking and Currency Committee

As part of its current studies concerned with the impact of institutional investment on the stock market, the Senate Banking and Currency Committee has asked the Board of Governors of the Federal Reserve System to obtain among other things certain information relative to investment activities of bank-administered personal trusts. The data sought by the Committee concern the aggregate volume of transactions in common stocks for personal trust funds (exclusive of common trust funds, which are being covered in a separate inquiry, and pension and profit sharing trusts) and transactions for such trusts in 25 named common stocks, both sets of data to be made available on a monthly basis for the period January 1953 through October 1955. Additional requested information relates to the markets in which the transactions were consummated together with the market value of common stock holdings at the beginning and end of the report period.

Preliminary discussions of this project with a number of trust institutions in various sections of the country indicate that the requested data, desired for all personal trust funds, are not readily available from records usually kept pertaining to trust department activities of banks. Inasmuch as the desired data apparently can be more easily obtained from analysis of individual trusts than through reclassification and computation of all departmental transactions, we are attempting to meet the request of the Committee through analyses of transactions for selected trusts on a limited sampling basis. This sampling approach has been discussed with the staff of the Senate Committee.

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Therefore, we are asking your cooperation in obtaining for the Senate Banking and Currency Committee data on common stock transactions for 25 of the largest personal trusts under administration by your institution during the period covered by the survey. Forms for assembling and reporting the transaction data are being mailed you under separate cover; copy is enclosed. It is requested that the trusts selected for analysis be those for which your bank has an appointment as trustee (either in a sole or joint capacity) under wills or agreements which permit the trustee(s) full and unlimited discretion in the selection of investments. Within this definition, each trust analyzed should exceed \$100,000 in market value; five of the trusts selected should be the largest under administration, with the remaining 20 being selected at random.

Similar data are being requested from a number of representative trust institutions throughout the United States; the results of this survey will be treated in strictest confidence, with only aggregates being presented to the Senate Committee.

Representatives of the Research or Bank Examinations Departments of the Federal Reserve Bank will be glad to discuss any procedural aspects of this survey with you. Your cooperation in furnishing the desired data to the Federal Reserve Bank prior to March 1, 1956, will be much appreciated.

To the Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Chicago, and San Francisco

The Board has today addressed letters to several banks in your District for the purpose of developing data relative to common stock transactions by bank-administered personal trusts to permit response to a Senate Banking and Currency Committee request for such data in connection with its current study of the impact of institutional investment on the stock market. The inquiry being undertaken by the Board is designed to obtain data, on a sample basis, from practically all banks having a volume of personal trust business in excess of \$200 million. The form and scope of this request are indicated in the enclosed copies of the bank letters and by the report forms thereto attached. The sampling approach adopted in this instance has been discussed with the staff of the Senate Committee.

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The nature of this survey has been determined following consideration by a System ad hoc Committee (Board's letters of November 23 and 30, 1955) of methods for obtaining data that would be responsive to the Senate Committee's request and yet remain within the abilities of trustee banks reasonably to provide. The ad hoc Committee has been impressed by the fact that records maintained by banks in connection with their trust department activities ordinarily do not permit ready production of historical data of kinds in which the Senate Committee indicates an interest. It seems clear, therefore, that attempts to produce transaction and market value data for all or a large segment of trust department accounts would involve a burden of work and expense of very substantial proportions for some banks and would be virtually impossible of accomplishment by others, particularly within the short time period available.

Because of the special nature of this survey and the limited number of banks included, it is important that a high response rate be obtained. To this end it is requested that you arrange to furnish whatever guidance may be needed with regard to procedural aspects involved; it might be desirable for this purpose for selected personnel of your Research or Bank Examinations Departments to discuss this survey with the respondent banks following their receipt of the Board's request for the data.

Please forward to the Board as soon as practicable after March 1, 1956, the report forms collected from the respondent banks, together with a tabulation showing aggregates of transactions for all reporting banks in your District.

Messrs. Sherman, Horbett, Noyes, Koch, Masters, and Brill then withdrew from the meeting.

At the meeting on December 8, 1955, the Board discussed a proposed Defense Mobilization Order which would delegate specified mobilization responsibilities to the Board. Pursuant to the understanding at that meeting, Governor Robertson discussed the proposal further with members of

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the Presidents' Conference Special Committee on Emergency Operations, and subsequently sent copies of the proposed Order and related material to the Presidents of the other Reserve Banks. Prior to this meeting, there had been sent to the members of the Board copies of a memorandum from Mr. Leonard to Governor Robertson dated January 4, 1956, summarizing the replies, which showed that only two Presidents (Messrs. Bryan and Irons) raised any questions of substance. There had also been sent to the Board members copies of a memorandum from Governor Robertson dated January 5, 1956, recommending (1) the transmittal of an attached letter to Mr. Arthur S. Flemming, Director of the Office of Defense Mobilization, which would state that the Board was agreeable to the issuance of such a Defense Mobilization Order but, in order to cover the points raised by Messrs. Bryan and Irons, would suggest further defining and clarifying the responsibilities and would also suggest certain changes in the wording of the draft, (2) that steps be taken promptly to put into effect the program contemplated by the Defense Mobilization Order, and (3) the recruitment of a small emergency planning staff at a high level which would include two economists and two men familiar with operations of banking and other financial institutions, supplemented with appropriate secretarial help.

Governor Robertson said that the members of the Special Committee on Emergency Operations were at first inclined to prefer an Order which would delegate responsibilities to the System rather than to the Board, and he explained why this kind of planning operation would not permit

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calling upon individuals from various parts of the country on an irregular basis. He went on to say that in his opinion the emergency planning staff must consist of full-time personnel, recruited from within the System, or from the outside if necessary, that this staff should draw upon the work accomplished to date within the System and upon the research and other facilities of the Board and the Reserve Banks, and that the Board's division heads and the Reserve Bank Presidents and their staffs should be kept fully informed of the progress of the program. He also stated that although the emergency planning duties would not permit the personnel of that unit to carry other responsibilities for some time, the situation might change at a later date and the selection of staff from outside the System should be made on the basis of recruiting persons who would make valuable permanent additions to the Board's organization.

In response to a question, he said he would hope that the emergency planning program could be substantially completed in about a year, since a great deal of work already had been done by the Board's staff. He added that there was agreement among the members of the staff who had participated in the emergency planning activities as to the necessity for obtaining qualified personnel on a full-time basis to carry the work forward.

There being unanimous agreement with the recommendations contained in Governor Robertson's memorandum, approval was given to the following letter for the signature of Chairman Martin to Mr. Flemming:

Your letter of November 2 forwarded for comment a draft of a Defense Mobilization Order which would delegate various

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defense mobilization responsibilities to the Federal Reserve Board and, through it, to the Federal Reserve Banks.

The Board has considered the draft and is agreeable to the issuance of such an Order. Principally for purpose of clarification, however, the Board suggests a few changes in wording; the specific suggestions are on the attached sheet.

Paragraph 2(e) of the proposed Order would make the Board responsible for the "development and presentation of such other proposals and plans as would be essential, in the judgment of the Federal Reserve Board, to the maintenance and stabilization of the economy under various types of defense mobilization emergencies."

The Board assumes that the responsibility quoted above is not an exclusive one, but is shared by ODM itself and other agencies. The Board also assumes that this delegation relates to matters coming within the field of credit and monetary policies and related areas appropriate to the Board's functions. Accordingly, in order that there may be no misunderstanding as to the extent of this proposed Order and that the records not show delegations to the Federal Reserve beyond the scope of its appropriate responsibilities, the Board would appreciate confirmation of its interpretation of these points.

The draft of the DMO authorizes the Board to act with and through the Federal Reserve Banks in carrying out the purposes of the Order. As you know, the Federal Reserve Banks have participated in defense planning in the past. If the Defense Mobilization Order is issued, the Board would expect to continue to work with the Federal Reserve Banks in this field and to call freely upon their knowledge and experience, their intimate contacts with the commercial banking system, and their facilities. The Board would also expect to delegate certain phases of the work to the Federal Reserve Banks.

SUGGESTED CHANGES IN DRAFT OF
DMO FORWARDED WITH DR. FLEMMING'S
LETTER OF NOVEMBER 2, 1955

The last clause in paragraph 2(b) with its reference to joint responsibility for the development of monetary and credit

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measures seems somewhat inconsistent with the responsibility delegated to the Federal Reserve Board in the first sentence of paragraph 1. Also, the reference in paragraph 2(b) to "credit measures" is broader than the reference to "bank credit" referred to in the first paragraph. It is suggested, therefore, that the last clause of paragraph 2(b) be eliminated and that the substance of it be included as a new and opening subparagraph under paragraph 2, reading somewhat as follows:

"Development of measures in the monetary and bank credit fields to deal with the potential economic consequences of attack."

While the last sentence of paragraph 1 of the Order states that the Federal Reserve Board "will take the lead in encouraging the development of preparedness plans by the commercial banking system generally," paragraph 2(c) would appear to make the Federal agencies specified responsible for the preparation of the plans to be followed by individual banks. It is suggested that it would be fully as effectual and make for more effective cooperation in all parts of the banking system if the last sentence of paragraph 1 of the Order were eliminated and paragraph 2(c) were revised to read somewhat as follows:

"Development of plans, in cooperation with the Department of the Treasury, including the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, for the encouragement of the development by the commercial banking system of plans designed to assure continuity of operations of the banking system in the event of enemy attack, including the preservation of essential records."

All of the members of the staff except Messrs. Carpenter and Kenyon then withdrew from the meeting.

With reference to the action taken by the Board on January 4, 1956, Chairman Martin stated that because of the policy of the company with which Mr. Edmund Martin is affiliated, he would be unable to accept appointment as a director of the Buffalo Branch of the Federal Reserve Bank of New York.

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Thereupon, it was agreed unanimously to ask Chairman Crane, of the Federal Reserve Bank of New York, to ascertain whether Mr. Ralph F. Peo, President, Houdaille Industries, Inc., Buffalo, New York, would accept appointment as a director of the Buffalo Branch if such appointment were tendered; and that if he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Peo would accept the appointment if tendered, the following telegram was sent to him on January 10, 1956:

Board of Governors Federal Reserve System has appointed you director Buffalo Branch Federal Reserve Bank of New York for term ending December 31, 1958. Your acceptance by collect telegram would be appreciated.

It is understood you are not director of bank and do not hold public or political office. Should situation change in these respects during your tenure please advise Chairman New York Reserve Bank.

Chairman Martin also stated that an inquiry made pursuant to the Board's action on December 20, 1955, disclosed that Mr. Leland I. Doan would be unable to accept appointment as a director of the Detroit Branch of the Federal Reserve Bank of Chicago.

Thereupon, it was agreed unanimously to ask Chairman Prall, of the Federal Reserve Bank of Chicago, to ascertain whether Mr. J. Thomas Smith, President, Detroit Harvester Company, Detroit, Michigan, would accept appointment as a director of the Detroit Branch for the term ending December 31, 1956, if such appointment were tendered; and that if he would accept, the appointment would be made.

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Chairman Martin reported that Mr. Riefler, Assistant to the Chairman, had been invited to make an off-the-record talk at a meeting of the Realtors' Washington Committee of the National Association of Real Estate Boards in Washington on January 14, 1956. He recommended that Mr. Riefler be authorized to accept the invitation.

There was unanimous agreement with Chairman Martin's suggestion.

The meeting then recessed and reconvened at 3:00 p.m. with Vice Chairman Balderston and Governors Szymczak, Mills, Robertson, and Shepardson present. Messrs. Carpenter, Kenyon, Vest, Solomon, Shay, and Cherry of the staff also were present.

Mr. Cherry said he had been informed that at a meeting of the Senate Banking and Currency Committee this morning in executive session to review the Committee's program for the immediate future, it was decided to ask the Board's research staff to give a review of the economic and financial situation for the Committee at an executive session on January 19, 1956.

Governor Balderston referred to a memorandum addressed to him under date of January 5, 1956, in which Mr. Young, Director, Division of Research and Statistics, stated that he had been asked to speak on the flow of funds study at the graduate economics seminar at the Massachusetts Institute of Technology in Cambridge, Massachusetts, on January 12, 1956,

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and that he would like to have Mr. Sigel, Economist in that Division, accompany him. Governor Balderston said that if Mr. Young made the trip, he intended also to visit the Federal Reserve Bank of Boston to review the Bank's research organization.

No objection was interposed to acceptance of the invitation.

Mr. Cherry then withdrew from the meeting.

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 stated:

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective January 15, 1956:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Esther P. Locke, Clerk-Stenographer		\$3,500	\$3,585
Maurice H. Schwartz, Economist		7,785	8,000
Helmut F. Wendel, Economist		6,605	6,820
Alice R. Williams, Clerk		3,600	3,685
<u>International Finance</u>			
Gordon B. Grimwood, Economist		6,390	6,605
Mary J. Katinas, Clerk-Stenographer		3,500	3,585
Reed J. Irvine, Economist		6,390	6,605

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Salary increases, effective January 15, 1956 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Examinations</u>		
J. T. Kelley, Senior Federal Reserve Examiner		\$10,320	\$10,535

Approved unanimously.

Letter to Mr. A. E. Petermann, Secretary, Calumet & Hecla, Inc., Chicago, Illinois, reading as follows:

This refers to the request contained in your letter of December 13, 1955, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the status of Calumet & Hecla, Inc., Chicago, Illinois, and its wholly owned subsidiary, Goodman Lumber Company, Goodman, Wisconsin, as holding company affiliates.

From the information supplied, the Board understands that Calumet & Hecla, Inc., is primarily engaged as a metal fabricator and in the business of the mining of copper; that Calumet & Hecla, Inc., in August of this year acquired Goodman Lumber Company for the purpose of entering into the business of producing lumber and veneer and related products; that Goodman Lumber Company is engaged in forest management on a sustained-yield basis and the manufacture and sale of lumber and related products; that Goodman Lumber Company owns a number of houses which are rented to its employees, a general store and automobile service garage, and the capital stock of Goodman Waterworks Company which supplies water and sewage disposal service to the plants and residents of the town; that Goodman Lumber Company acquired in July of this year a majority of the stock of Citizens Bank of Goodman, Goodman, Wisconsin; and that neither Calumet & Hecla, Inc., nor Goodman Lumber Company, directly or indirectly, owns or controls any stock of, or manages or controls, any banking institution other than Citizens Bank of Goodman.

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In view of these facts, the Board of Governors has determined that Calumet & Hecla, Inc., and Goodman Lumber Company are not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Calumet & Hecla, Inc., and Goodman Lumber Company are not deemed to be holding company affiliates except for the purposes of section 23A of the Federal Reserve Act, and do not need voting permits from the Board of Governors in order to vote the bank stock which they own or control.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that either Calumet & Hecla, Inc., or Goodman Lumber Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

There is enclosed a copy of this letter which you may forward to Goodman Lumber Company for its records.

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

Letter to Mr. Patterson, Vice President and General Counsel, Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of December 6, 1955, enclosing copies of correspondence between your Bank and Mr. Marshall K. Hunter, President of The First National Bank of Anniston, Alabama, regarding the question whether three proposed certificates of deposit comply with the Board's Regulation Q.

Briefly, it is understood that the first of the three proposed certificates would provide for payment of the deposit 1 year after date to the depositor or his order with interest at the rate of 2 per cent per annum, but with a provision permitting payment of the certificate after 30 days' written notice at any time prior to maturity with interest at the rate of 1 per cent per annum. The second and third proposed forms of certificates provide for payment 2 years and 3 years after

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date, respectively, with interest at the rate of 2-1/2 per cent, but with a provision permitting payment prior to maturity after 30 days' written notice at the rate of 1 per cent if paid after 6 months but before 1 year from date, or at the rate of 2 per cent per annum if paid after 1 year from date but before maturity. These certificates likewise are made payable to the order of the depositor.

All three of the proposed certificates would comply with the definition of a "time certificate of deposit", as set forth in Regulation Q, since they are payable either at a specified date not less than 30 days after the date of deposit or upon notice in writing of not less than 30 days before the date of repayment. However, as indicated in your letter of November 21, 1955, to Mr. Hunter, the second and third forms of certificates would not comply with the provisions of the Supplement to Regulation Q, since they provide for payment before maturity at a rate of 2 per cent per annum if withdrawn after 30 days' written notice. Where a certificate permits withdrawal either at a specified maturity or prior to maturity after a specified period of written notice, the maximum rate of interest which may be paid will depend upon which of the alternate withdrawal privileges is actually elected by the depositor and upon the maximum rate applicable under Regulation Q in the circumstances of the withdrawal privilege so elected. (See 1953 Bulletin 721) Consequently, in order to conform to the requirements of the Regulation, the second and third forms of certificates would need to be changed to provide for not less than 90 days' written notice if payment is made before maturity at a rate of 2 per cent per annum.

It is understood that Mr. Hunter also asks why interest at a rate of 2-1/2 per cent per annum may be paid on a savings deposit if the bank requires, or reserves the right to require, 30 days' written notice of withdrawal, whereas a time certificate of deposit withdrawn after 30 days' written notice may not bear interest at a rate greater than 1 per cent per annum, even though in some cases the time certificate may represent a deposit of the same class of depositor for which savings deposits are permissible under Regulation Q. Generally speaking, savings deposits, unlike commercial types of deposits, consist of funds accumulated for thrift purposes; and the more favorable rate of interest accorded savings deposits is designed

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to encourage such thrift accumulations. At the same time, in an effort to preserve the noncommercial character of savings deposits, such deposits have been surrounded by restrictions and limitations which are not ordinarily applicable to other types of deposits, such as restricting payment of a savings deposit to the depositor himself and limiting the classes of depositors who may have savings deposits.

It should be noted, however, that, by reason of the amendment made to Regulation Q on May 16, 1955, the certificates of deposit in question could, if desired, be converted into savings deposits if certain changes were made in the provisions of the certificates. As indicated in 1955 Bulletin 1125, a deposit represented by a "savings deposit receipt" may qualify as a savings deposit where it is payable only to the named depositor and where the bank reserves the right to require 30 days' written notice prior to withdrawal. The certificates here in question would not meet these requirements since they are payable to the "order" of the depositor and since they are payable at final maturity without any requirement, or reservation of a requirement, for not less than 30 days' written notice of withdrawal. Assuming, however, that they represent deposits of individuals or of organizations of the types described in the regulatory definition of savings deposits, the deposits represented by the certificates would qualify as savings deposits (and therefore could bear interest at a rate up to 2-1/2 per cent per annum even though payable after 30 days' written notice) if they were made payable only to the depositor himself rather than "to order" and if they were changed to require, or reserve the right to require, not less than 30 days' written notice of withdrawal.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

This refers to your letter of December 20, 1955, addressed to Mr. Geo. S. Sloan, transmitting a copy of the resolution of the board of directors of Southern Arizona Bank & Trust Company, Tucson, Arizona, authorizing the Federal Reserve Bank of Dallas to send reports of examination of that member bank to Transamerica Corporation.

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In view of the fact that Transamerica Corporation has become a holding company affiliate of Southern Arizona Bank & Trust Company, it is felt that copies of reports of examination of such bank made by your examiners subsequent to the time Transamerica Corporation became a holding company affiliate of the bank may be furnished the corporation in accordance with the authorization received from the bank, provided such reports are transmitted and receipts therefor obtained in such manner as will preserve substantially the same restrictions and conditions as to the use, recall and disclosure for publication as those which govern the copies of reports furnished to State member banks pursuant to Form F.R. 410-45-Receipt.

Approved unanimously.

Pursuant to the understanding at this morning's session, Mr. Shay had prepared a memorandum discussing the request of The Chase Manhattan Bank that the Board reconsider its letter of December 9, 1955, to Mr. Robert Bruce Snow in which it held that loans by the bank as corporate trustee of the retirement trust of the American Investment Company to enable employees of that company and of its subsidiaries to purchase registered common stock of the company secured by such stock would be subject to Regulation U. Attached to the memorandum, copies of which had been sent to the members of the Board, was The Chase Manhattan Bank's letter of January 6 in which it was explained that employee loans from the retirement trust were to be made starting today and that the bank would like to continue as trustee pending reconsideration of the matter by the Board. Since under the trust agreement the bank, as corporate trustee, is required to follow the directions of the three individual

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trustees with respect to making employee loans, the bank's principal argument was based on its lack of discretion. Mr. Shay's memorandum pointed out, however, that Regulation U makes no exception for fiduciary activities of a bank and that it would seem very difficult to administer the regulation in its present form if the application of the regulation depended on the degree of discretion in the trustee bank to make loans of funds of the trust.

In a review of the matter, during which Chairman Martin joined the meeting, Messrs. Vest, Solomon, and Shay brought out that in making its request The Chase Manhattan Bank also stated that even with the bank removed as corporate trustee, the employee loans would be made, so that there would be no effect on the credit situation. They did not feel, however, that these arguments were sufficient to override the position taken by the Board in 1946 (as published in the 1946 Federal Reserve Bulletin, page 874) or, more recently, in the December 9 letter to Mr. Snow. They stated that difficult administrative problems undoubtedly would arise in interpreting the applicability of the regulation to individual cases if the Board did not adhere to its present position. With reference to the fact that employee loans of this kind can be made by other financial institutions such as credit unions without being subject to Regulation U, they pointed out that it would be within the authority of the Board to expand the coverage of the regulation to cover loans by various types of financial institutions, but that thus far the Board had

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restricted the application of the regulation to banks, not as a matter of discrimination but because that is where the bulk of the loans is concentrated.

There followed a general discussion of the action which might be taken with regard to the request of The Chase Manhattan Bank during which members of the Board indicated that although they were inclined to look with sympathy on the request, they recognized the problems that would be raised from the administrative standpoint. It was suggested that a further System study of the coverage of Regulation U might result either in a decision to expand its coverage to include loans by institutions other than banks or, on the other hand, in a decision to make amendments of a liberalizing nature.

In the circumstances, Governor Mills suggested advising The Chase Manhattan Bank that the Board was willing to suspend its interpretation pending the completion of a comprehensive study, with the understanding, however, that such a study might very well result in a decision not to change the existing interpretation. He then withdrew from the meeting because of another engagement, but before leaving stated that he would be agreeable to whatever conclusion might be reached by the Board.

The discussion then continued, and Governor Balderston stated that his views were along the lines of those expressed by Governor Mills. The other members of the Board were of the opinion that in the interest of impartial administration of the regulation the request of The Chase

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Manhattan Bank should be denied at this time. They agreed, however, that it would be desirable to make a study of the coverage of Regulation U and of the question of its applicability to the fiduciary activities of banks, with a view to determining whether the regulation should be amended in any respect or, if not, whether the interpretation stated in the Board's letter of December 9, 1955, should be changed.

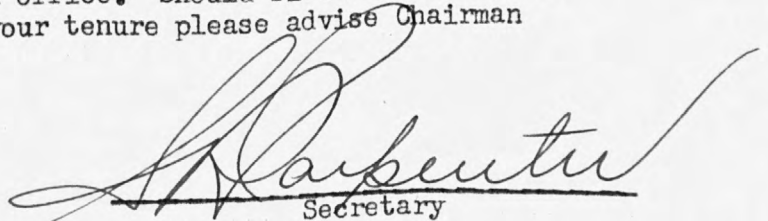
At the conclusion of the discussion, it was understood that (1) The Chase Manhattan Bank would be advised informally that its request for suspension of the interpretation contained in the Board's letter of December 9, 1955, was denied, but that a study of pertinent provisions of Regulation U was being undertaken; and (2) a letter would be drafted to the Federal Reserve Banks requesting their views on the matter.

The meeting then adjourned.

Secretary's Note: It having been ascertained, pursuant to the Board's action on January 4, 1956, that Mr. James L. Paxton, Jr., would accept appointment as a director of the Omaha Branch, Federal Reserve Bank of Kansas City, if such appointment were tendered, the following telegram was sent to Mr. Paxton on January 6, 1956:

Board of Governors Federal Reserve System has appointed you director Omaha Branch Federal Reserve Bank of Kansas City for a term ending December 31, 1957. Your acceptance by collect telegram would be appreciated.

It is understood you are not director of bank and do not hold public or political office. Should situation in these respects change during your tenure please advise Chairman Kansas City Bank.


Secretary