Minutes for February 2, 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	
Gov. Szymczak	x	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB.	
Gov. Shepardson	x	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 2, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

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:

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

> In accordance with the request contained in your letter of January 23, 1956, the Board approves the appointment of Carl H. Allen as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the salary rate and the date upon which the appointment is made effective.

It is noted that Mr. Allen is indebted to the Suburban Trust Company, Westfield, New Jersey, a nonmember bank, in the amount of $5,723.14, for a mortgage on his home. It is assumed that he will not be authorized to participate in any examination of the bank until his loan has been liquidated or otherwise eliminated.

Approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in your letter of January 23, 1956, the Board approves the designation of Thomas R. Barrett and Charles L. Welch as special assistant examiners for the Federal Reserve Bank of Richmond to participate in the examination of State member banks only.

The names of Donald W. DeHaven and Joseph A. Mryncza have been removed from our records of special assistant examiners.

Approved unanimously.

Letter to Mr. Snead, Chief Examiner, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in your letter of January 20, 1956, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in the examinations of State member banks <u>except</u> the bank listed immediately above their names:

<u>Southern Bank and Trust Company, Richmond, Virginia</u>

Harry B. Smith

<u>American Trust Company, Charlotte, North Carolina</u>

Clarence H. Robinson

The Board also approves the designation of Marvin A. Palmore, Jr., as a special assistant examiner for the Federal Reserve Bank of Richmond for the specific purpose of rendering

assistance in the examination of State member banks only. The authorization heretofore given your bank to designate him as a special assistant examiner is hereby cancelled.

The name of E. J. Carr has been removed from our records of special assistant examiners.

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the request contained in your letter of January 24, 1956, the Board approves the designation of Ronald C. McCracken as a special assistant examiner for the Federal Reserve Bank of Atlanta to participate in the examinations of State member banks only.

Approved unanimously.

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

Reference is made to your letter of January 20, 1956, and enclosures, submitting the request of The Johnstown Bank, Johnstown, New York, for permission to retire on March 1, 1956, its outstanding preferred stock of $40,000 at the retirable value of $100,000.

After consideration of the information submitted, the Board of Governors concurs in your recommendation and gives its prior consent to the retirement in full on March 1, 1956, by The Johnstown Bank of its outstanding preferred stock.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in effecting the retirement.

Approved unanimously.

Letter to Mr. Mervin B. France, President, Society for Savings in the City of Cleveland, Cleveland, Ohio, reading as follows:

This refers to the request contained in your letter of January 11, 1956 addressed to the Federal Reserve Bank of

Cleveland, for a determination by the Board of Governors of the Federal Reserve System as to the status of Society for Savings in the City of Cleveland, Cleveland, Ohio, as a holding company affiliate.

From the information supplied, the Board understands that Society for Savings in the City of Cleveland is a mutual savings bank incorporated under Ohio laws; that Society for Savings in the City of Cleveland is a holding company affiliate of Society National Bank of Cleveland because it owns 19,830 of the 20,000 outstanding shares of common stock of the national bank; and that Society for Savings in the City of Cleveland does not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than Society National Bank of Cleveland.

In view of these facts the Board has determined that Society for Savings in the City of Cleveland is 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, Society for Savings in the City of Cleveland is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that Society for Savings in the City of Cleveland 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.

Approved unanimously, for transmittal through the Federal Reserve Bank of Cleveland, with a copy to the Comptroller of the Currency.

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

The Board's telegram to all Federal Reserve Banks of December 29, 1955, concerned the status under Regulation U

of bank loans to purchase stock of the new issue of the Ford Motor Company which, it is understood, will become registered on a national securities exchange in the near future.

The Board now has received an inquiry from a State member bank in further reference to the above matter. Attached is an interpretation by the Board which covers the inquiry of the State member bank, and which will be published in early issues of the Federal Reserve Bulletin and of the Federal Register.

For your further information, at or about the time the Ford stock becomes registered on a national securities exchange, such stock will be added to the Board's list published pursuant to section 3(c) of the regulation.

Approved unanimously.

Secretary's Note: The interpretation referred to in the foregoing letter read as follows:

Effect under Regulation U of Registration of Stock Subsequent to Making of Loan

The Board recently was asked whether a loan by a bank to enable the borrower to purchase a newly issued stock during the initial over-the-counter trading period prior to the stock becoming registered (listed) on a national securities exchange would be subject to the Board's Regulation U. The Board replied that, until such stock is so registered, the regulation would not be applicable to such a loan.

The Board now has been asked what the position of the lending bank would be under the regulation if, after the date on which the stock should become registered, such bank continued to hold a loan of the kind just described. It is assumed that the loan was in an amount greater than the maximum loan value for the collateral specified in the regulation.

If the stock should become registered, the loan would then be for the purpose of purchasing or carrying a registered stock, and, if secured directly or indirectly by any stock, would be subject to the regulation as from the date the stock

was registered. Under the present regulation, this does not mean that the bank would have to obtain reduction of the loan in order to reduce it to an amount no more than the specified maximum loan value. It does mean, however, that so long as the loan balance exceeded the specified maximum loan value, the bank could not permit any withdrawals or substitutions of collateral that would increase such excess; nor could the bank increase the amount of the loan balance unless there was provided additional collateral having a maximum loan value at least equal to the amount of the increase. In other words, as from the date the stock should become registered, the loan would be subject to the regulation in exactly the same way, for example, as a loan subject to the regulation that became under-margined because of a decline in the current market value of the loan collateral or because of a decrease by the Board in the maximum loan value of the loan collateral.

At the meeting on January 31, 1956, consideration was given to the possible applicability of section 32 of the Banking Act of 1933 to the service of Mr. Joseph E. Morris as Vice President of The First National City Bank of New York, Vice President of City Bank Farmers Trust Company, also of New York, and a member of the board of trustees of Elfun Trusts, an employees' trust in the form of an open end investment company, interest in which is limited to certain key employees of General Electric Company and its affiliated companies, members of their immediate families, and certain profit sharing or pension trusts created by General Electric. Action on the matter was deferred at the request of Governor Robertson to afford him a further opportunity to review the file.

During a discussion of the case, reference was made to the facts as reported through the Federal Reserve Bank of New York, to the purposes

of section 32, and to the similarities between this case and two other cases, namely, Institutional Investors Mutual Fund and Bank Fiduciary Fund, on which the Board expressed views in 1952 and 1954, respectively.

In commenting on the matter, Governor Robertson said it appeared to him that the most significant distinctions to be made between this case and the ordinary open end investment company case were that Elfun is operated as a service or accommodation for certain employees and that its shares are available only to a limited group of participants. He noted that its trustees are employees of General Electric Company, serving without compensation, except for two persons selected because of their knowledge of investments. While, in all the circumstances, it did not seem likely that any conflict of interests would result from holding section 32 inapplicable to the service of Mr. Morris in this case, he expressed apprehension concerning such an interpretation of the law from the standpoint of precedent. For this reason, he said, he would vote to hold the statute inapplicable only with some reluctance.

At the conclusion of the discussion, approval was given to the following letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, Governor Robertson voting in favor of the letter with some reservations for the reason which he had given:

This is with further reference to your letter of December 13, 1955, and its enclosures, concerning the applicability of section 32 of the Banking Act of 1933 to Mr. Joseph E. Morris as a vice president of The First National City Bank of New York, a vice president of City Bank Farmers Trust Company,

New York City, and as a member of the board of trustees of Elfun Trusts.

It appears that Elfun Trusts is an employees' trust in the form of an open end investment company, interest in which may be acquired only by certain key employees of General Electric Company and members of their immediate families. Four profit sharing or pension trusts established by General Electric for key executives also hold participation in Elfun, but apparently these trusts are being liquidated and no new trusts of this kind are contemplated. Participations in Elfun may not be assigned or sold, although they may be pledged as security, and since Elfun is organized as a service or accommodation to the employees, there is no sales literature except the prospectus issued to eligible persons, and no sales force, nor does Elfun make any sales effort of any kind, although talks by representatives of Elfun will be made to groups of eligible participants on request. There is no loading charge or management fee apart from actual administrative expenses. Elfun has qualified with the Securities and Exchange Commission as an employees' investment company under the provisions of the Investment Company Act of 1940 and has been exempted by the Securities and Exchange Commission from compliance with certain provisions of that Act, in view of the restricted nature of the trust and the purposes for which it was organized.

It appears further that the trustees of Elfun will all be employees of General Electric, serving without compensation, except two who will be selected because of their specialized knowledge of investment of funds, who will receive a fee for attending monthly meetings. Mr. Morris, who is one of the senior investment officers of City Bank Farmers Trust Company and The First National City Bank of New York, would be one of these two.

As you pointed out, section 32 of the Banking Act of 1933 applies to organizations "primarily engaged in the issue * * * public sale, or distribution * * * of securities", and the Board has held that an open end investment company of the usual kind is included in this definition because it must continue to sell its shares in order to survive, with the result that the sale of its shares becomes one of its primary activities. However, as you point out, the Board

has considered two cases, one in 1952 and one in 1954, involving organizations which were in form open end investment companies but which were of such a specialized nature that it appeared that they were not "primarily engaged" in selling their shares. They were Institutional Investors Mutual Fund, the stock of which could be owned only by mutual savings banks in New York, and Bank Fiduciary Fund which was organized as a medium for the common investment of trust funds held by trust companies and banks in New York acting in fiduciary capacities, ownership of its shares being restricted to such fiduciaries in their capacities as such.

In the present case it appears that Elfun was created and is run as a service or accommodation for certain employees of General Electric and its subsidiaries, that the shares are available only to a limited group of participants, that the officers and managers of Elfun are not financially interested in promoting the sale of its shares in order to insure its survival, and that consequently the conflict of interests at which section 32 was directed is not present.

In the circumstances, the Board is of the view that Elfun is not "primarily engaged" in the sale of its shares and that section 32 is not applicable to the service of Mr. Morris as one of its trustees and as an officer of The First National City Bank of New York and of City Bank Farmers Trust Company of New York City. Of course, any change in the facts as stated in your letter of December 13, 1955 and its enclosures and as outlined herein might necessitate a reconsideration of the matter.

Further consideration was given to the proposal, previously considered at the meetings on January 26 and 30, 1956, that the Federal Reserve Bank of New York act as fiscal agent for the International Monetary Fund and the Treasury in connection with the investment in Treasury bills of some of the gold now held by the Fund. Documents of which copies had been sent to the members of the Board included: a letter dated January 19,

1956, from President Sproul of the Federal Reserve Bank of New York raising questions as to the legality and desirability of the proposal; the opinion of the General Counsel of the Treasury Department dated December 6, 1955; and a memorandum dated January 27, 1956, from Mr. Frank A. Southard, Jr., United States Executive Director of the International Monetary Fund, to Mr. Burgess, Under Secretary of the Treasury, stating reasons for the proposal and discussing possible alternatives.

In response to a request from the Board for comments, Mr. Vest made a statement substantially as follows:

> In this situation the statute provides that a Federal Reserve Bank, upon the request of the International Monetary Fund, shall act as fiscal agent of the Fund, subject to the supervision and direction of the Board of Governors. There is no indication as to what the Board must take into account in exercising its responsibilities. I think, however, that it would be concerned with risk of loss by the Federal Reserve Bank, the possibility of any improper action by the Reserve Bank, and the possibility of justifiable criticism that might be involved in the Bank's acting as fiscal agent. The risk of loss in this case is very remote, and the possibility of criticism is a matter of conjecture. The Fund considers that it has the legal authority to do this and Counsel for the Treasury has expressed his opinion, after long and careful consideration, that the Fund has legal authority to enter into this transaction. The Executive Board of the Fund has issued, or will issue, an interpretation to the effect that this is legally authorized under the Fund's Articles of Agreement. While there is certainly no reason why the Board cannot explore the legal question as thoroughly as it wants to on an independent basis, it seems to me that, notwithstanding the adverse legal opinion of the Federal Reserve Bank of New York, the Board would be justified in assuming the legality and regularity of the arrangement without necessarily making an independent exploration, to any further extent than it desires, in view of the opinions of the Treasury and the Fund, the action of the Executive Board of the Fund in issuing its

interpretation, and the action taken by the National Advisory Council on International Monetary and Financial Problems.

As to the question of legality, Mr. Solomon and I have not made as exhaustive a study of this case as the Treasury and the New York Reserve Bank have. We have, however, studied their opinions. Speaking for myself - and I believe Mr. Solomon concurs - I think the legal question is initially open to considerable doubt. On the other hand, I do not think anybody can say with assurance that the opinion of the Treasury in this matter is wrong or not justified on the basis on which they put it out. I think that the Treasury, in an important matter of this kind, might well - and may have - considered going to the Attorney General of the United States for an opinion, or going to the appropriate committees of Congress on an informal basis. But they did not do it and we are confronted with the situation as it now exists. To put it another way, Mr. Solomon and I think this matter is doubtful legally, but we cannot say that the opinion of the Treasury is wrong. We are inclined to think that the arguments on the side of the legality of the arrangement are somewhat stronger than those on the other side. I do not think there would be sufficient basis for the Board at this juncture to question the transaction or express the firm opinion that it is unlawful.

On reviewing the findings of the New York Bank, it appears that the Bank in the past has asked approval of the Board of Governors whenever the International Bank for Reconstruction and Development has entered into formal contracts for certain fiscal agency operations. On matters of lesser importance they have not asked the approval of the Board, but simply sent material for the Board's information in those cases.

Governor Szymczak then made a statement in which he emphasized that the proposal of the International Monetary Fund must be judged for practical purposes in the light of its fundamental objective; namely, to provide earnings with which to meet the Fund's operating expenses. Assuming that the continued operation of the Fund was regarded as desirable

from the point of view of United States policy and that satisfactory alternative procedures were not available, he felt that the legal aspects of the proposal must be considered in the light in which the Treasury's General Counsel evidently rendered his opinion; that is, with due regard to its purpose. In all the circumstances, he said, he would not hesitate to vote in favor of approving the Federal Reserve Bank of New York acting as fiscal agent.

In response to questions by Governor Vardaman, Governor Szymczak discussed procedural methods within the National Advisory Council and pointed out that the refusal of a Reserve Bank, following favorable action by the Council, to act as fiscal agent for the Treasury, the Fund, or the International Bank because of questions concerning the legality or desirability of a particular proposal would mean in effect that the Reserve Bank stood in a position to veto the actions of the National Advisory Council.

Following further discussion of the liability of the Federal Reserve Bank of New York as fiscal agent, Governor Balderston inquired of Mr. Vest whether in his opinion it was within the jurisdiction of a Reserve Bank as fiscal agent to challenge the legality of directions given to it by the principal, or, in other words, to challenge the action of the principal if the law was not clear as to the authority of the principal to direct the Reserve Bank to act. In response, Mr. Vest said that if

the New York Bank were asked by the Fund, the International Bank, or the Treasury to act as fiscal agent in a capacity which clearly was not a fiscal agency function and was clearly beyond the authority of the principal, he thought the Bank would certainly be within its rights and responsibilities in raising that point. Where the situation was not so clear, he said, it became a matter of where to draw the line. If it were clearly a fiscal agency function which the New York Bank was asked to perform, he thought the Bank had a duty to perform the function subject to the supervision and direction of the Board of Governors.

Chairman Martin expressed the opinion that it was not only the right but the duty of the New York Reserve Bank to bring to the Board's attention anything which the Bank felt to be illegal, regardless of opinions rendered by the Treasury or other agencies. In this case, however, he considered the Bank remiss in not expressing its views to the Board earlier in view of the fact that the Bank had been aware for some time that the proposal was before the National Advisory Council. While he felt that the Board should always welcome the Bank's comments on the legal or other aspects of matters of this kind, he doubted whether the Bank should undertake to place itself in a position of questioning matters acted upon by the Council from the standpoint of policy.

Governor Vardaman said he agreed with Chairman Martin that the New York Bank should make its voice heard in informal counsel at the

proper time and in a proper manner. He also agreed that it would be inappropriate for the Bank, when requested to act as fiscal agent in a situation of this kind, to take a position which would be equivalent to challenging a decision of the National Advisory Council. He went on to say that he doubted the liability of any agent in performing, after written protest, pursuant to specific instructions issued by its principal.

Following reference by Mr. Marget to the provisions for indemnification against liability which would be included in letters from the Fund and the Treasury to the Federal Reserve Bank of New York, and to the similarities between the New York Bank's role in this transaction and its role in buying and selling United States Government securities for the account of foreign central banks, Governor Robertson said he construed the Bank's proposed letter to the Fund as meaning that it felt there might be criticism of the proposed operation at some point and that it would like to clear itself by having this letter on the record. While he had some doubt about the validity of the Treasury's legal opinion on the matter and also had doubts about the proposal from the standpoint of policy and the details contemplated in its execution, he felt that these matters were not primarily the concern of the Board and said that he would vote without any reservations to give the New York Bank approval to carry out the proposed operations as fiscal agent. He considered the Board's responsibility one of sharing some of the responsibilities of the New York

Bank in carrying out instructions given to the Bank as fiscal agent, and he believed that the Board need not concern itself with questions of policy involved in the proposal, or with questions of its legality, in view of the National Advisory Council's action and the legal opinions which had been rendered.

Governors Balderston and Shepardson stated that their views were along the lines of those expressed by Governor Robertson.

Governor Mills said that while he would not go quite as far as Governor Robertson, the reasoning stated by Governor Szymczak appealed to him; that is, that as a practical matter this was a normal and acceptable transaction for the International Monetary Fund to engage in, and that although there might be some haziness concerning the details involved in its consummation, the practicality and general propriety of the proposal were sufficient to warrant approval of the New York Bank acting as fiscal agent.

Thereupon, unanimous approval was given to a letter for the signature of Chairman Martin to President Sproul in the following form:

The Board has considered your letter of January 19, 1956, with respect to your Bank's acting as fiscal agent in connection with operations incidental to the proposed investment of a portion of the International Monetary Fund's gold in United States Treasury bills.

After careful consideration of all aspects of the matter, the Board approves your Bank's acting as fiscal agent in connection with the proposed arrangement, and for that purpose approves the use of letters on the subject in substantially the form enclosed with your letter.

During the foregoing discussion Messrs. Riefler, Assistant to the Chairman, Leonard, Director, and Horbett, Associate Director, Division of Bank Operations, and Koch, Assistant Director, and Eckert, Chief, Banking Section, Division of Research and Statistics, entered the room. At the conclusion of the discussion Messrs. Marget and Tamagna withdrew from the meeting.

Further consideration was given to the proposal that section 19 of the Federal Reserve Act be amended to authorize the Board to permit member banks to count vault cash as reserves. In this connection there had been sent to the members of the Board copies of a memorandum dated January 20, 1956, from Messrs. Young, Horbett, Koch, and Eckert discussing the potential credit-easing effects of such legislation and possible ways that those effects might be offset. This memorandum had been prepared in accordance with the understanding at the meeting on December 23, 1955. There had also been sent to the members of the Board copies of a memorandum dated January 23, 1956, which stated that letters had been received from members of the Federal Advisory Council favoring the proposed amendment, that the Comptroller of the Currency had advised that he favored the amendment, and that a letter (attached to the memorandum) had been received from the Federal Reserve Bank of Chicago indicating that it was favorably disposed toward the specific objectives of the proposal but doubted whether the amendment alone would promote those objectives. In

addition, copies had been sent to the Board of a letter dated January 23, 1956, from Mr. Adrian M. Massie, Chairman of the Board of the New York Trust Company and a member of the Federal Advisory Council, expressing views critical of the proposed amendment.

In a discussion of the matter, reference was made to the comments of the Reserve Bank Presidents at their meeting with the Board on January 25, 1956. In this connection, Governor Shepardson said he was inclined to agree with the Presidents' point of view that the proposal should be pursued with emphasis on the redress of inequities and that the defense planning objectives were of secondary concern.

Governor Robertson said he concurred in the feeling that the emergency angle should not be overstressed. However, he considered it one of the bases on which the proposal could be justified. He said that he understood there was some difference of opinion among the Presidents as to whether emergency preparations should be cited as the principal reason for the proposal, and that this difference of opinion resulted in the wording of the statement which was presented at the joint meeting.

Governor Mills pointed out that if the proposal were enacted, the Board would be confronted with urgent demands on the part of member banks to permit vault cash to be counted as reserves, either to the full extent permitted by law or on a piecemeal basis. He said that the Board, therefore, must be prepared to act in an orderly way in the light of considerations such as those outlined in the staff memorandum of January 20.

Governor Robertson agreed that there would be substantial problems and that the Board would have to be prepared to withstand pressures and make the operation mesh in with its over-all monetary and credit policy.

After indicating that he favored the proposed amendment, Governor Vardaman added that he had read comments made recently by Mr. Walter E. Spahr concerning the role of float in the check collection process and that he would like to have this matter placed on the docket for discussion at a forthcoming meeting of the Board.

Mr. Thomas said that there was a staff discussion of the vault cash proposal yesterday and, while there were still differences of opinion as to its advisability, it was the majority opinion that the proposal should be pursued. He also discussed the staff's views with respect to actions that it might be appropriate for the Board to take in various circumstances following enactment of such legislation.

> Thereupon, it was agreed unanimously that a letter should be sent to the Bureau of the Budget submitting the proposed amendment, transmitting an appropriate memorandum of the reasons for the proposal, and requesting the views of the Budget Bureau concerning the relationship of the proposal to the program of the President. This action was taken with the understanding, pursuant to a suggestion by Chairman Martin, that the Treasury would be notified informally that the proposal was being submitted to the Bureau of the Budget.

Chairman Martin stated that he had had telephone conversations yesterday evening and this morning with Senator Monroney, of Oklahoma, who had seen the Board's press release on consumer credit covering December 1955, had interpreted the figures as an indication of serious developments in the field of consumer credit, and asked that Chairman Martin testify on Monday, February 6, before the Senate Committee on Interstate and Foreign Commerce concerning the matter. He added that Senator Monroney also had been trying to reach President Sproul of the Federal Reserve Bank of New York to request that he appear and testify. Chairman Martin said he told the Senator that his request would be brought to the attention of the Board but that no commitment was made. He went on to state that he was considering saying to the Senator that if the Committee wanted a member of the Board's staff to appear on Monday to explain the factual basis on which the figures in the consumer credit release were compiled, the Board would be glad to comply.

Following comments on the December statistics, the view was expressed that inasmuch as the Senate Banking and Currency Committee evidently was going to consider the recommendation in the President's Economic Report concerning authority for consumer credit controls on a stand-by basis, little would be gained by Chairman Martin's testifying before the Interstate and Foreign Commerce Committee, which appeared to be concerned primarily with the trade aspects of consumer credit. There was agreement that Chairman Martin might offer to have a member or members of the Board's

staff testify before the Committee on the composition of the consumer credit statistics and say to Senator Monroney that, if the Committee still desired to have him appear after his testimony on February 7 before the Joint Committee on the Economic Report, he would be glad to do so at an appropriate time.

At the conclusion of the discussion, Chairman Martin was authorized to make such response to Senator Monroney as he deemed appropriate in the light of the comments made at this meeting.

During the foregoing discussion Messrs. Horbett and Eckert withdrew from the meeting, and at its conclusion Mr. Koch also withdrew.

There had been sent to the members of the Board copies of a memorandum from the staff dated January 31, 1956, concerning the program to be given on Friday, February 17, on the occasion of the visit to the Board's offices by newly appointed directors of the Federal Reserve Banks and branches.

Certain revisions inthe program given last year were suggested, and it was understood that plans for this year's program would be carried forward on the basis of the views expressed at this meeting.

During the foregoing discussion Governor Mills withdrew from the meeting to keep another appointment. At its conclusion, Mr. Fauver withdrew and Mr. Johnson, Controller, and Director, Division of Personnel Administration, entered the room.

At the meeting on December 19, 1955, consideration was given to a proposal submitted to the Board by Mr. Burgess, Under Secretary of the Treasury, for an amendment to the Federal Reserve Act which would authorize the Federal Reserve Banks to repay to the Treasury $27,500,000 previously paid to the Reserve Banks under section 13b of the Act in connection with the making of industrial loans, with a provision that the amounts repaid would continue to remain available for future payments by the Treasury to the Reserve Banks if necessary. Pursuant to the understanding at that meeting, Chairman Martin advised Mr. Burgess that the Board would not object to a bill along the lines suggested and that the Board's staff would be glad to cooperate in the drafting of the bill.

In a memorandum dated January 31, 1956, copies of which had been sent to the members of the Board, Mr. Hackley stated that the Treasury had now submitted to the Board's staff informally a draft of a proposed bill and a draft of letter from the Secretary of the Treasury to the Congress. While the draft bill appeared to be consistent with the proposal previously discussed by the Board, it would require each Reserve Bank to repay to the Secretary of the Treasury "any amounts paid to it, whenever the Federal Reserve Bank determines that such amounts are not required for the purposes of this section". Since it seemed desirable that the Board, rather than the Reserve Banks, be vested with the discretion to determine whether and when the amounts should be repaid, Mr. Hackley

discussed the matter with a Treasury Department representative, who expressed the opinion that the change would be agreeable to the Treasury. The memorandum stated that in the absence of objection, the staff would advise the Treasury informally that the draft, with this change, was agreeable to the Board.

In commenting on the matter, Mr. Hackley said that while the draft of proposed bill might not be exactly in the form that the Board's staff would have suggested had it prepared a draft itself, the staff could see no substantial objection to the draft except for the one feature mentioned in his memorandum.

> At the conclusion of a discussion of the proposal, it was agreed that, as suggested in the memorandum from Mr. Hackley, the Treasury would be advised informally that the draft of proposed bill, with the one change referred to by Mr. Hackley, was agreeable to the Board.

Messrs. Riefler, Leonard, and Young then withdrew from the meeting.

There had been circulated to the members of the Board a memorandum dated January 23, 1956, from the Division of Personnel Administration recommending, in order to reduce the time lag in the recruitment of employees:

> 1. That the present general practice of clearing references prior to recommendation to the Board be restricted to checking the most important reference, with the understanding that employment will be subject to satisfactory completion of a full reference check.
>
> 2. That Governor Balderston (or in his absence a designated Board Member) be authorized to approve on behalf of

the Board recommendations for employment in positions through salary Group K (currently, $3,925) or its equivalent in salary in any Wage Board or part-time positions, and that approvals by Governor Balderston be entered in the Board's minutes as of the date of his approval.

The recommendations contained in the memorandum from the Division of Personnel Administration were approved unanimously.

Mr. Johnson then withdrew from the meeting.

Reference was made to a memorandum dated February 1, 1956, of which copies had been sent to the members of the Board, in which Mr. Vest reported a telephone call from a representative of the Bureau of the Budget who inquired whether the Board had any views to express regarding bill H. R. 7871, now before the President for signature. The bill would increase the authority of the Small Business Administration to make disaster loans, would permit maximum maturities for such loans up to 20 years, and would provide that the maximum interest rate of three per cent applicable to disaster loans made direct by the Small Business Administration and to the Administration's share of disaster loans in which it participates with private lenders would not apply to that part of such a loan which is entirely at the risk of a private lender. The memorandum expressed the opinion that there did not seem to be sufficient reason for making any adverse comment on the bill, as to which the Board's views had not previously been requested.

Following a brief discussion based on comments by Mr. Vest, it

was agreed unanimously that the Bureau of the Budget should be advised informally by Mr. Vest that the Board would have no objection to approval of the legislation by the President.

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

The Secretary later was informed by the Chairman that during the executive session unanimous approval was given to the following appointments, each for a term of five years from March 1, 1956:

1. Mr. Joseph A. Erickson as President and Mr. Alfred C. Neal as First Vice President of the Federal Reserve Bank of Boston;

2. Mr. Alfred H. Williams as President and Mr. W. J. Davis as First Vice President of the Federal Reserve Bank of Philadelphia; and

3. Mr. Wilbur D. Fulton as President and Mr. Donald S. Thompson as First Vice President of the Federal Reserve Bank of Cleveland.

The meeting then adjourned.

Secretary's Note: In accordance with the recommendation contained in a memorandum dated February 1, 1956, from Mr. Bethea, Director, Division of Administrative Services, Governor Balderston today approved on behalf of the Board the appointment of Martha Jane Elder as Operator, Key Punch, in that Division, on a temporary basis for a period of two months and with basic salary at the rate of $3,260 per annum, effective as of the date on which she assumes her duties.

Secretary