

Minutes for February 6, 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>MM</u>	_____
Gov. Szymczak	X <u>MS</u>	_____
Gov. Vardaman	X _____	_____
Gov. Mills	X _____	_____
Gov. Robertson	X <u>R</u>	_____
Gov. Balderston	X <u>CCB</u>	_____
Gov. Shepardson	X <u>SPS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 6, 1956. The Board met in the Board Room at 10:00 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. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Hackley, Assistant General Counsel
 Mr. Cherry, Legislative Counsel

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:

Memorandum dated January 26, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the basic annual salary of Eleanor S. Frase, Economist in that Division, be increased from \$8,215 to \$8,990, effective February 12, 1956.

Approved unanimously.

Memorandum dated January 27, 1956, from Mr. Marget, Director, Division of International Finance, recommending that the basic annual salary of Samuel I. Katz, Economist in that Division, be increased from \$9,635 to \$10,320, effective February 12, 1956.

Approved unanimously.

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Memorandum dated January 26, 1956, from Mr. Sloan, Director, Division of Examinations, recommending that the resignation of Loretta S. Hallman, Clerk-Stenographer in that Division, be accepted effective January 28, 1956.

Approved unanimously.

Memorandum dated January 27, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Josephine A. Hall, Cafeteria Helper in that Division, be accepted effective February 3, 1956.

Approved unanimously.

Letters to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with the request contained in your letter of January 26, 1956, the Board approves the appointment of C. Ward Bettes, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment is made effective.

In accordance with the request contained in your letter of January 26, 1956, the Board approves the appointment of Charles J. Stangel, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment is made effective.

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 26, 1956, the Board approves the designation of Clarence Ambrose Turner, III, as a special assistant examiner for the Federal Reserve Bank of Richmond.

Approved unanimously.

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

In accordance with the request contained in your letter of January 25, 1956, the Board approves the designations of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Chicago:

G. Rentenbach	E. B. Tumej
Stanley M. Bara	Richard A. Hardoin
H. H. Spencer-Smith	Louis J. Puro1
James C. Sparbeck, Jr.	

It is noted that Mr. Tumej is indebted to the Trenton State Bank, Trenton, Michigan, a State member bank, and that he will not be authorized to participate in any examinations of that bank.

The Board also approves the designation of Thaddeus L. Majka as a special assistant examiner for the Federal Reserve Bank of Chicago to assist in the examinations of The Detroit Bank, Detroit, Michigan.

The authorizations heretofore given your bank to designate Thaddeus L. Majka and G. Rentenbach as special assistant examiners are hereby cancelled.

Approved unanimously.

Letter to the Board of Directors, The First National Bank of Shelby, Shelby, North Carolina, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, grants you authority to act, when not in contravention of State or local law, as 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 State of North Carolina. The exercise of all such powers

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shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

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

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

Reference was made to the following draft of letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., which had been circulated to the members of the Board:

Your office recently informed the Board of a pending application for approval of the proposed merger of the First National Bank, Holbrook, Arizona, and the First National Bank of Arizona, Phoenix, under the charter of the latter.

As you know, the Board is having a study made of the competitive situation among the banks of Arizona. One of the chief reasons for the conduct of this study was the recent acquisition of control of Southern Arizona Bank and Trust Co. by Transamerica Corporation, which already controlled the First National Bank of Arizona. These two institutions are, respectively, the third and second largest banks in the State. The proposed merger would reduce further the already limited number of competing banks in Arizona and would increase the proportion of the State's bank deposits and banking offices in the hands of the two dominant groups (the other being the Valley National/Bank of Douglas group), which already hold the overwhelming majority of the State's banking resources.

In the circumstances, the Board of Governors recommends against approval of the proposed merger pending completion of the study that is now under way.

In response to questions by Governor Vardaman, Governor Robertson said he felt that the Board was justified in making such a recommendation

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to the Comptroller of the Currency since in this case, as opposed to one on which the Board's views were requested recently, no steps had been taken by the Comptroller's Office which would result in injury to the rights of the interested parties if the application were not approved. He felt that it would be a mistake if the Board did not make such a recommendation, for the reason that if the merger were consummated and the current investigation resulted in a decision that steps should be taken pursuant to section 7 of the Clayton Act, the Board would be faced with a situation where it would be impossible to return the banks to their original status.

Governor Mills made a statement in which he concurred in Governor Robertson's position, it being his view that the Board's recommendation would protect the public interest. It would be made, he pointed out, with the understanding that the Board would have no further objection to approval of the proposed merger if the current factual investigation indicated that actions pursuant to the Clayton Act were not required.

Governor Vardaman said that after studying all aspects of the matter he could not convince himself that it was logical to intervene in this manner merely on the assumption that an investigation of indefinite duration would result in findings such as to indicate that the transaction might be contrary to the Clayton Act. Therefore, while he would not object to a letter to the Comptroller of the Currency which would simply

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refer to the current investigation and make no recommendation as to the action the Comptroller should take, he was opposed to sending a letter to the Comptroller in the form submitted for the Board's consideration.

Following further discussion, the letter to the Comptroller of the Currency was approved in the form set forth above, Governor Vardaman voting "no" for the reason which he had stated.

Reference then was made to a memorandum dated January 27, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending for reasons stated that the Division be authorized to sell the Board's 1950 Pontiac sedan at the best price obtainable on a competitive bid basis and to enter into an agreement for the leasing of a Chrysler Windsor at \$650 per annum. The memorandum, which had been circulated to the members of the Board, also discussed the possibility of replacing the Board's 1947 Cadillac limousine with a leased Chrysler New Yorker at a yearly rental of \$750, but suggested that in view of extensive repairs made during 1955 the Cadillac be retained until this investment was more fully recovered.

Governor Balderston reviewed the situation discussed in Mr. Bethea's memorandum and suggested reasons why it might be preferable to sell both the Pontiac and the Cadillac at the present time and enter into lease agreements for two Chrysler automobiles.

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There was general agreement with Governor Balderston's suggestion, but the question was raised whether it would be desirable to lease a seven-passenger Imperial rather than a Chrysler New Yorker, which it was understood would accommodate only five passengers. The suggestion also was made that in the event of a decision to lease a Chrysler New Yorker, the Board's 1947 Cadillac might be retained as a standby car for use at such times as it was needed.

At the conclusion of the discussion, the Board indicated approval of the leasing of two cars and referred the entire matter to Governor Balderston with power to act.

Pursuant to the understanding at the meeting on February 3, 1956, there had been sent to the members of the Board under the same date copies of a revised draft of testimony to be given by Chairman Martin tomorrow before the Congressional Joint Committee on the Economic Report. There had also been distributed drafts of statements to be used if necessary in response to questions relating to (1) consumer credit control and (2) a liberalization of the requirement for the purchase of stock of the Federal National Mortgage Association.

In a discussion of the drafts during which various suggestions were made for further changes, Governor Vardaman stated, with regard to the consumer credit statement, that he continued to be opposed to placing any permanent authority in the Board for consumer credit regulation. He added that he was also opposed to permanent authority to regulate stock

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market credit. If the Congress should authorize the control of consumer credit on a temporary basis, he did not feel that the Board should protest, but he did not look with favor on placing that type of authority at the permanent disposal of the Board. However, assuming that the proposed statement reflected the position of a majority of the Board, he felt that the language was generally satisfactory.

At the conclusion of the discussion, it was agreed that the statements would be further revised to incorporate the suggestions accepted at this meeting, that advance copies of the main statement would be sent to the Joint Committee on the Economic Report this afternoon, if possible, and that the two auxiliary statements would be presented by Chairman Martin only if circumstances made their use appropriate.

Messrs. Thurston, Thomas, and Cherry then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum from Mr. Hackley dated February 2, 1956, concerning a proposed amendment to the Supplement to Regulation Q, Payment of Interest on Deposits, which would have the effect of permitting member banks to compound interest at the maximum rates prescribed by the Board on any basis they desire, provided the aggregate amount of interest paid would not exceed that which would be payable at the maximum rate when compounded monthly. Following discussion at the meeting on December 23, 1955, the Board submitted a draft of such an amendment to the Federal Reserve Banks, the Comptroller of the

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Currency, and the Federal Deposit Insurance Corporation for comments. The Reserve Banks either favored the amendment or were noncommittal, except that the Richmond Bank was apprehensive of competitive pressures which might result in procedures that would be burdensome and expensive to most banks. The Comptroller of the Currency was in full accord with the proposed amendment, but the Federal Deposit Insurance Corporation saw no compelling reason for the amendment and expressed the view that it might work a substantial disadvantage to smaller banks which were forced to adopt a procedure of compounding interest monthly for competitive reasons. However, if the Board should decide to adopt the amendment, the Corporation indicated that it would amend its regulations in conformity with the proposal. A draft of notice for use should the Board decide to publish the proposed amendment in the Federal Register was submitted with Mr. Hackley's memorandum.

In discussing the matter, Mr. Hackley called attention to a point raised by Governor Mills after the memorandum was distributed; that is, that the Supplement to Regulation Q, which had not been changed since January 1, 1936, included certain exceptions regarding the payment of interest under deposit contracts entered into before the date that the Supplement was adopted. Mr. Hackley said that the Legal Division saw no possible objection to eliminating those provisions and that a representative of the Federal Deposit Insurance Corporation, after consulting other persons in

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that agency, advised that the Corporation undoubtedly would agree to their elimination from its regulations.

Governor Mills stated that questions concerning the proposed amendment which he had raised earlier had been answered. He noted that publication of a notice in the Federal Register would give sufficient advance information so that all banks would be on the same basis if the amendment were adopted.

Governor Vardaman said he was agreeable to publication of a notice in the Federal Register. While it was his opinion that adoption of the amendment would result in increased expense and annoyance to smaller banks forced by competitive pressures to compound interest monthly, he felt that the notice in the Federal Register would give them ample opportunity to express their views if they so desired. He went on to say that he would favor raising the maximum rate of interest prescribed by the regulation to 3 per cent.

Governor Robertson said that while he would concur in the proposed amendment, it was his personal feeling that an amendment to the law should be sought which would remove the necessity for the Board to prescribe maximum rates of interest on time and savings deposits.

Thereupon, it was agreed unanimously to send to the Federal Register a Notice of Proposed Rule Making covering amendment of the Supplement to Regulation Q in respect to the compounding of interest and the elimination of the obsolete provisions referred to by Governor Mills, with the understanding that arrangements would be worked

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out with the Federal Deposit Insurance Corporation for substantially simultaneous publication in the Federal Register of a similar notice with respect to proposed amendment of its regulations, and that when the Board's notice was sent to the Federal Register, copies would be sent to the Federal Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

The meeting then adjourned.

It is not proposed to amend the minutes with respect to any of the articles of the minutes in the record of voting to be maintained pursuant to Section 10 of the Act.

Should you have any questions regarding the minutes, or wish to advise the Secretary's Office, please contact the Secretary's Office at 202-452-2000. If you are not present at the meeting, please indicate to the Secretary's Office.

[Handwritten Signature]
 Secretary

- Mr. Martin _____
- Mr. Boardman _____