Minutes for March 5, 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.

Chm. Martin  x  
Gov. Szymczak  x  
Gov. Vardaman  x  
Gov. Mills  x  
Gov. Robertson  x  
Gov. Balderston  x  
Gov. Shepardson  

A

B

Signed
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 5, 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. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board

The following members of the staff of the Division of Research and Statistics also were present:

Mr. Young, Director
Mr. Noyes, Adviser
Mr. Garfield, Adviser
Mr. Williams, Assistant Director
Mr. Koch, Assistant Director
Mr. Brill, Chief, Business Finance and Capital Markets Section
Mr. Eckert, Chief, Banking Section
Mr. Gehman, Chief, Business Conditions Section
Mr. Jones, Chief, Consumer Credit and Finances Section
Mr. Miller, Chief, Government Finance Section
Mr. Weiner, Chief, National Income, Money-flows, and Labor Section
Mr. T. Smith, Economist
Mr. Trueblood, Economist
Mr. Wernick, Economist
Mr. Wood, Economist
The representatives of the Research Division presented a review of business and economic developments following which they withdrew from the meeting. Mr. Thomas also withdrew at this point.

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 March 11, 1956:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>From</td>
</tr>
<tr>
<td>Alfred P. Johnson,</td>
<td>Research and Statistics</td>
<td>$5,575</td>
</tr>
<tr>
<td>Economist</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paul F. Smith,</td>
<td></td>
<td>8,000</td>
</tr>
<tr>
<td>Economist</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nell Tyson,</td>
<td></td>
<td>3,840</td>
</tr>
<tr>
<td>Library Assistant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mildred D. Spano,</td>
<td>International Finance</td>
<td>3,805</td>
</tr>
<tr>
<td>Clerk-Stenographer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Ralph Massey,</td>
<td>Bank Operations</td>
<td>8,430</td>
</tr>
<tr>
<td>Technical Assistant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charles E. Aikens,</td>
<td>Examinations</td>
<td>4,080</td>
</tr>
<tr>
<td>Assistant Federal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve Examiner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robert N. Westmoreland</td>
<td></td>
<td>4,215</td>
</tr>
<tr>
<td>Jr.,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assistant Federal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve Examiner</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Salary increases, effective March 11, 1956 (continued)

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>J. Robert Surguy,</td>
<td>Administrative Services</td>
<td>$5,065 - $5,200</td>
</tr>
<tr>
<td>Printing Clerk</td>
<td></td>
<td>$2,945 - $3,030</td>
</tr>
<tr>
<td>James R. Jordan,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Messenger</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Approved unanimously.

Memorandum dated February 6, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that Florence R. Cox be transferred from the position of Secretary in the Division of International Finance to the position of Secretary in the Division of Research and Statistics with no change in her present basic salary of $4,480 per annum, effective as of the date on which she assumes her new duties.

Approved unanimously.

Memorandum dated February 24, 1956, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Frances B. Smith, Records Clerk in the Office of the Secretary, be accepted effective February 29, 1956.

Approved unanimously.

Letter to Mr. Smith, Federal Reserve Agent, Federal Reserve Bank of Dallas, reading as follows:

In accordance with the request contained in your letter of February 23, 1956, the Board of Governors approves the appointment of Mr. William C. Hartung as Federal Reserve Agent's Representative at the Houston Branch, to succeed Mr. R. E. Maley.

This approval is given with the understanding that Mr. Hartung will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the
proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Houston Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It is noted from your letter that upon approval of Mr. Hartung's appointment his Oath of Office will be forwarded to the Board of Governors together with advice of the effective date.

Approved unanimously.

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

Reference is made to your letter of February 7, 1956, submitting the request of The Schuylkill Haven Trust Company, Schuylkill Haven, Pennsylvania, for permission under the provisions of section 24A of the Federal Reserve Act to increase its total investment in bank premises to $212,157.24.

The Board of Governors has given consideration to the asset condition, management, capital structure, and physical needs of Schuylkill Haven Trust Company and approves the proposed increase in investment in bank premises. It is understood that $35,000 of the new expenditures will be written off as soon as construction is completed and that the rate of depreciation on the new structure will be accelerated so that an additional $35,000 will be written off in a period not to exceed five years. It is understood further that the present bank building will be sold at the earliest possible date at an amount in excess of the present carrying value of $33,657.24 and that the proceeds of this sale will be applied to the reduction of the carrying value of bank premises. Please advise the bank accordingly.

Approved unanimously.
3/5/56

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

Reference is made to your letter of February 14, 1956, submitting the request of Piedmont Trust Bank, Martinsville, Virginia, for the Board's approval under the provisions of Section 24A of the Federal Reserve Act of an additional investment in bank premises.

After consideration of the available information, the Board concurs in the recommendation of the Reserve Bank and approves an increase in investment in banking premises, directly and indirectly, up to not more than $400,000 by Piedmont Trust Bank. It is noted that approximately $200,000 of the cost of the new banking premises will be borrowed by the affiliate, Piedmont Investment Corporation, from some source and will be repayable over a period of approximately 20 years.

Approved unanimously.

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

Reur tel February 27 time within which Southern Arizona Bank and Trust Company, Tuscon, Arizona, may open branch in Nogales, Arizona, has been extended to permit opening on March 19, 1956.

Approved unanimously.

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

Reference is made to a letter from your office dated September 29, 1955, enclosing photostatic copies of an application to organize a national bank at Skokie, Illinois, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application, made by an examiner for the Federal Reserve Bank of Chicago, discloses reasonably satisfactory findings with respect to the factors usually considered in
connection with such applications, except as to the ade-
quacy of the capital structure. Our informant is of the
opinion that a capital structure of not less than $400,000
should be provided. The Board of Governors of the Federal
Reserve System recommends approval of the application pro-
vided arrangements are made for a capital structure satis-
factory to your office.

The Board's Division of Examinations will be glad to
discuss any aspects of this case with representatives of
your office if you so desire.

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

Letter to Mr. Paul J. Adelson, Rothschild & Company, Chicago,
Illinois, reading as follows:

This refers to your letter of February 6, 1956, and
its enclosure, concerning the application of the Board's
Regulation T to the case in which a customer of a broker
subject to the regulation makes a short sale of a regis-
tered (listed), nonexempted security against a long posi-
tion in the same security. The enclosure with your letter
was a copy of your reply of November 22, 1955, to the an-
swer of the New York Stock Exchange to your letter of Novem-
ber 11, 1955.

From the correspondence received by the Board in this
connection, it appears that the type of transaction of in-
terest to you may be outlined as follows: A customer's
margin account contains a long position in a certain se-
curity. He sells the same quantity of the security, but
does not deliver against the sale his long position in the
security. Some time after the short sale just described,
the customer purchases a like quantity of the security in
his account, but does not at that time cover or close out
the short position.

By virtue of section 3(d)(3) of the regulation, no ad-
ditional margin would be necessary under the regulation on
the short sale in such circumstances. However, as the sub-
sequent purchase would not be used on the date thereof to
cover or close out the short position, it would be necessary to margin that purchase in accordance with the standard margin requirements of the regulation, at present 70 per cent. This result is required under sections 3(b) and 3(c) of the regulation, and apparently you were advised to this effect by the New York Stock Exchange.

Your view seems to be that the standard margin prescribed by the regulation should not apply to the purchase made subsequent to the short sale. Briefly, you state that there would be no risk either for the customer or the broker, and that in your opinion all margin regulations have as their chief purpose the protection of the broker and the customer. In further support of your view, you assert that the elimination of the standard margin requirement on the subsequent purchase would make it easier for customers to make transactions of the kind outlined in order to show tax losses. Accordingly, your letter of November 22, 1955, to the New York Stock Exchange requested the Exchange to ask the Board to consider changing Regulation T so as to give effect to your view; and your letter to the Board of February 6, 1956, also suggested that such a change be made in the regulation.

Regulation T is issued by the Board pursuant to the Securities Exchange Act of 1934. The provisions of the Act directing the Board to regulate margin requirements for brokers and dealers are stated to be "For the purpose of preventing the excessive use of credit for the purchase or carrying of securities. . . ." These provisions of the Act, among other things, require the Board to regulate the amount of credit that may be extended and maintained by brokers and dealers on any registered, nonexempted security. Whether or not particular transactions expose brokers or their customers to financial risks is a matter not included in the Act as a standard for consideration by the Board in the administration of the Act and regulation. Therefore, it would seem that such a matter could not serve as a chief objective or purpose of the regulation.

The Board realizes that the Act and the regulation may operate in particular situations or at particular times to discourage security transactions which might result in a
favorable position to the taxpayer under the tax laws. However, as previously indicated, the purpose of the Act and the regulation is to prevent the excessive use of credit for the purchase or carrying of securities, and the Act does not suggest that this purpose be administered in the light of tax considerations. If this purpose is to be carried out effectively, there will necessarily be times when some transactions in securities by those affected by the law and regulation will not be negotiated, although the parties clearly would regard the transactions as beneficial to their own particular situations. It is understood that you were advised recently by the New York Stock Exchange that it does not intend to recommend your suggested change in the regulation for consideration by the Board.

In the circumstances, the Board does not believe that it should change its regulation in the fundamental respect suggested by you.

Approved unanimously, with copies to the Federal Reserve Banks of New York and Chicago.

At this point Messrs. Vest, General Counsel, Sloan, Director, Division of Examinations, and Hexter, Assistant General Counsel, entered the room.

At the meeting on February 23, 1956, consideration was given to a request from the Comptroller of the Currency for a recommendation with regard to an application to organize a national bank at Evergreen Park, Illinois, and in order to clarify certain aspects of the application concerning which questions were raised, Mr. Sloan was requested to obtain additional information from Mr. Diercks, Vice President of the Federal
Reserve Bank of Chicago, and from the Federal Deposit Insurance Corporation. Subsequently, the file was recirculated to the members of the Board with a memorandum from Mr. Sloan and an alternative draft of letter to the Comptroller of the Currency which would take the position that favorable consideration might be given to the application provided arrangements were made for adequate capital and experienced management satisfactory to the Comptroller's Office.

In commenting on his conversation with Vice President Diercks, Mr. Sloan said he pointed out the seeming inconsistency between statements in the report of investigation regarding the prospective growth of deposits and the need for additional capital and, on the other hand, questioning the need for a bank at the proposed location. Mr. Diercks, he said, considered the application as being of a borderline nature but felt that the needs of the community were being met, with few exceptions, by existing nearby banking facilities. Mr. Diercks also referred to the letters of protest filed by three existing banks in the community and advised that the local representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation were recommending adversely on the application. Nevertheless, Mr. Diercks felt that the Board would be justified in recommending favorably, if it so desired, provided capital and management factors were resolved to the satisfaction of the Comptroller. References in the report of investigation to certain proponents of the proposed bank who also serve as directors of a recently organized insured
nonmember bank in Chicago were said by Mr. Diercks not to have been intended as critical, and the Federal Deposit Insurance Corporation had advised Mr. Sloan that it considered the insured nonmember bank as being well sponsored.

Mr. Sloan said it appeared that at least for the time being most of the business of the proposed bank would come from existing institutions, but that the community was growing rapidly and the new bank would be a convenience.

Governor Robertson then made a statement in which he called attention to the fact that there are five other banks within a distance of 2-1/2 miles of the site of the proposed bank, that four of these banks were organized within the past nine years, and that three of them have deposits of less than $10 million. While the proposed bank no doubt would be a convenience, particularly to businesses located in the shopping center area where it would be established, and while he would have no difficulty in approving the establishment of a branch at the location, if a branch were permitted under State law, he was somewhat inclined in this borderline situation to feel that there were enough doubtful factors to justify an adverse recommendation along the lines originally proposed.

Governor Mills stated that at first he was inclined toward a favorable recommendation in this case, but that upon reviewing all of the information that had now been assembled, it appeared to him that the
case was so borderline that such a recommendation might not be warranted.

Governor Vardaman said that he would not weigh too strongly the protests filed by existing banks in the area, that the Federal Reserve Bank of Chicago might have given too much weight to those protests, that the earnings potential of a small bank in such a neighborhood should not be discounted, and that, since Illinois law does not permit branch banking, he would lean toward recommending approval of the application. He agreed that the case was borderline and said that he would not vote against an unfavorable recommendation if that should be the decision of the other members of the Board. However, in a case of this kind he would favor the encouragement of private enterprise.

In a further discussion, Chairman Martin expressed agreement in principle with Governor Vardaman's philosophy regarding the encouragement of private enterprise, but said that one must also take into account the stimulus given to new business ventures by current economic conditions. In a borderline case like the one before the Board, he felt that the most serious error might be in resolving the question on the side of leniency and that, in all the circumstances, it was advisable in such a case to support the conclusions of the local supervisory officers.

Thereupon, unanimous approval was given to a letter to the Comptroller of the Currency reading as follows, with a copy to the Federal Reserve Bank of Chicago:

Reference is made to a letter from your office dated July 26, 1955, enclosing photostatic copies of an application
to organize a national bank at Evergreen Park, Illinois, under the title of Evergreen Plaza National Bank of Evergreen Park and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Chicago reveals some unfavorable findings with respect to the factors usually considered in connection with such proposals. It is reported that the proposed capital structure of the bank is somewhat inadequate and that the organizers are unwilling to tie up additional funds in the stock until such time as the need arises. It appears that the outlook for earnings of the institution is only fair; that the lack of banking experience of the directors and the temporary arrangements made for operating officers do not assure satisfactory management; and that some question exists as to the need for the bank in the light of existing facilities in the area. After considering all of the information available, the Board does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

At this point Messrs. Marget, Director, and Whittington, Chief, Far Eastern Section, Division of International Finance, were called into the meeting.

There had been circulated to the members of the Board a memorandum from Mr. Marget dated February 14, 1956, regarding proposed participation by First Vice President Deming and Vice President Francis of the Federal Reserve Bank of St. Louis in a banking and economic mission to Honduras. The memorandum recommended that the Board express agreement with such participation. An attached memorandum from Mr. Whittington, also dated February 24, described the mission's assignment, the interest
expressed by the Honduran Government and the Department of State, and the capacities in which Messrs. Deming and Francis would serve. Also attached was a letter dated February 21, 1956, from Mr. Johns, President of the Federal Reserve Bank of St. Louis, in which he advised that the Bank's Executive Committee had authorized leaves of absence with pay for Mr. Deming or Mr. Francis, or both, up to three months, on the understanding that expenses of travel and subsistence would be paid ultimately by the Honduran Government. Mr. Johns stated that the action of the Executive Committee was taken on the assumption that the arrangements would be agreeable to the Board of Governors, and that he would like to have evidence of the Board's concurrence in the Bank's files.

Governor Vardaman, who had indicated when the file was in circulation that he would like to have the matter discussed at a meeting at which he was present, stated that his only question related to the operational problems that might be created by the absence from the St. Louis Bank of the two officers, particularly the First Vice President.

In a discussion of the matter, it was brought out that the possibility of Mr. Deming serving on such a mission was first suggested by Mr. Neal, First Vice President of the Federal Reserve Bank of Boston, that officials of the State Department had expressed themselves as favorable to the mission, that it was anticipated the mission personnel would consist of five individuals, including four from the Federal Reserve
System, that the mission probably would require two months, that President Johns indicated a desire to have Mr. Deming obtain the experience which he would get through heading the mission, and that Mr. Johns himself suggested the name of Mr. Francis upon learning that an expert on agricultural credit was desired.

The view was expressed that there would seem to be no objection to the participation of Messrs. Deming and Francis unless their absence from the Bank would pose substantial operating problems. To have assurance that this factor had received appropriate consideration, it was suggested that the matter be reviewed with President Johns when he was in Washington tomorrow for the meeting of the Federal Open Market Committee.

There was unanimous agreement with this suggestion.

Secretary's Note: Subsequently, Chairman Martin asked Governor Szymczak to discuss the matter with President Johns and inform the Board of the results of the discussion.

Messrs. Riefler, Marget, and Whittington then withdrew from the meeting.

Reference was made to a memorandum from Mr. Marget dated February 6, 1956, commenting on plans for foreign travel by members of the staff of the Federal Reserve Bank of New York during the year 1956,
particularly Vice President Exter's proposed visit to the Bank for International Settlements and to certain European central banks en route.

After referring to his memorandum of August 4, 1955, concerning relations between the Board and the Bank for International Settlements, Mr. Marget raised for consideration whether it would not be desirable for the Board as well as the New York Reserve Bank to be represented at the annual meetings of the Bank for International Settlements. Mr. Marget suggested that a period of two weeks would enable him not only to attend this year's annual meeting in Basle but also to visit en route the Bank of England and The Netherlands Bank, the latter being an institution which he had not yet visited.

Following a brief discussion, Mr. Marget was authorized to proceed abroad later this year for a period of two weeks to attend the annual meeting of the Bank for International Settlements and to visit, en route, the Bank of England and The Netherlands Bank.

Pursuant to the suggestion contained in the Board's letter of February 7, 1956, to the Federal Reserve Bank of San Francisco, the Reserve Bank wrote to The Continental Bank and Trust Company, Salt Lake City, Utah, on February 10 requesting the member bank to advise within 60 days of the steps that would be taken to strengthen the bank's capital structure by the sale of additional common stock to provide not less than
$1,500,000 net additional capital funds. Under date of February 15, the
President of the member bank, Mr. Walter E. Cosgriff, replied to the
Reserve Bank and raised certain questions relating to the suggested
capital increase. On February 17 the Reserve Bank sent a letter to the
Board transmitting a copy of Mr. Cosgriff's letter and asking for the
Board's views as to an appropriate reply. Prior to this meeting there
had been sent to the members of the Board a memorandum from Mr. Hexter
dated February 29 submitting a draft of letter from the Board to the
Reserve Bank and a suggested draft of a reply which the Reserve Bank
might send to Mr. Cosgriff.

Governor Vardaman began the discussion by expressing the opinion
that although the suggested draft of letter to Mr. Cosgriff was basically
quite sound, the construction was faulty in certain respects. Since the
letter no doubt would become a fundamental part of the record in this
case, he felt that it should be considered carefully. He then reviewed
the draft and raised various questions as to the proposed language.

Following a discussion of his suggestions concerning the draft
of letter, Governor Vardaman turned to the question of the retention of
outside counsel, stating that with the transmittal of this letter to Mr.
Cosgriff the Board would definitely commit itself to a proceeding under
section 30 of the Banking Act of 1933 or section 9 of the Federal Reserve
Act, assuming that the member bank refused to comply with the request
for an increase in its capital structure. Therefore, while he did not think that a decision on the retention of outside counsel could be made today, he felt that the matter should be given consideration and that if it were decided to employ outside counsel, the arrangement should be made before any letter was transmitted to Mr. Cosgriff, in fairness to the person retained and to the Board.

Mr. Vest said that in the opinion of the Legal Division it would certainly be desirable, at the proper time, to employ outside counsel to handle the situation because the case undoubtedly would involve a lot of work, particularly in connection with a hearing before a trial examiner. He went on to review provisions of the Administrative Procedure Act pertinent to a proceeding of this kind. With reference to the proposed letter to Mr. Cosgriff, he said that the points raised by Governor Wardaman indicated the difficulties which would arise in the prosecution of this case and that they deserved consideration. He also said that consideration had been given by the staff to the possibility of suggesting a brief, formal reply to Mr. Cosgriff, but that it was concluded that there was something to be said for a longer reply which would "lay the case on the table" and the draft, therefore, was submitted in that form.

Chairman Martin called attention to the fact that Mr. Mangels, President of the San Francisco Reserve Bank, would be in Washington.
tomorrow to attend the meeting of the Federal Open Market Committee and suggested that the Board might wish to review the situation with Mr. Mangels to obtain the benefit of his views.

Governor Robertson suggested that it might be advisable to ask Mr. Mangels to bring with him Mr. O'Kane, General Counsel for the Reserve Bank, particularly since it might be possible for Mr. O'Kane to handle the whole case from beginning to end and the retention of outside counsel would, therefore, be unnecessary.

Governor Mills commented that Governor Vardaman's remarks were predicated on the assumption that litigation of the matter would be involved. It was his feeling that if Mr. Cosgriff decided not to accede to the request for additional capital, he might seek to withdraw the bank from membership in the Federal Reserve System rather than to bear the costs of litigation.

At the conclusion of the discussion, the Secretary was requested to get in touch with President Mangels by telephone to arrange for a meeting with him tomorrow and also to suggest to Mr. Mangels the possibility of bringing Mr. O'Kane with him to Washington to participate in the discussion.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the conclusion of the morning session except that Messrs. Sherman, Kenyon, Vest, and Hexter were not present.
Mr. Carpenter reported that he had tried to reach President Mangels at the Federal Reserve Bank of San Francisco but found that he had already left for the meeting of the Federal Open Market Committee tomorrow, so that if the Board should want Mr. O'Kane to come to Washington for the discussion of the capital situation at The Continental Bank and Trust Company it would be necessary to communicate with First Vice President Swan.

It was agreed that the matter should be discussed with Mr. Mangels tomorrow but that it would not be necessary to suggest that Mr. O'Kane come to Washington to participate in the discussion.

Governor Vardaman stated that the purpose of the questions which he raised at the meeting this morning with respect to the proposed letter to The Continental Bank and Trust Company was to assure that the case would be properly handled. He agreed that the Board should proceed without hesitation, but he questioned the grounds on which the draft of letter proposed to proceed. He realized that the bank would have to be handled firmly, and that in the absence of a change in attitude it would have to be expelled from membership or the directors would have to be removed under section 30 of the Banking Act of 1933. However, he did not want to make a mistake in the way the matter was handled or to "pull an unloaded gun". It was his view that the proposed letter should not be sent or any other action taken until the Board had determined the procedure to be followed and the goal sought to be accomplished.
In a discussion of the sanctions available to the Board in the event the bank did not increase its capital, Governor Vardaman indicated a preference for a section 30 proceeding. Governor Robertson suggested that a decision on which course should be followed did not have to be made finally at this time, although when the matter was before the Board when the first letter sent to The Continental Bank and Trust Company was approved it was felt that a proceeding to expel the bank from membership would be the preferable one.

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

The Secretary later was informed by the Vice Chairman that during the executive session the Board authorized Mr. Bethea, Director of the Division of Administrative Services, to negotiate a three-year lease with the Heurich Brewing Company for approximately 700 square feet of storage space at an annual rental of $1 more or less per square foot.

The meeting then adjourned.