

Minutes for March 22, 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>[Signature]</i></u>	_____
Gov. Szymczak	X <u><i>[Signature]</i></u>	_____
Gov. Vardaman	X <u><i>[Signature]</i></u>	_____
Gov. Mills	X <u><i>[Signature]</i></u>	_____
Gov. Robertson	X <u><i>[Signature]</i></u>	_____
Gov. Balderston	X <u><i>CCB</i></u>	_____
Gov. Shepardson	X <u><i>[Signature]</i></u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 22, 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. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Conkling, Assistant Director, Division
 of Bank Operations

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 March 15, 1956, from Mr. Thurston, Assistant to the Board, recommending that Ruth E. Morris be transferred from the position of Secretary in the Office of the Secretary to his office, as Secretary, and that her basic annual salary be increased from \$4,890 to \$5,080, effective upon approval by the Board.

Approved unanimously.

Memorandum dated March 13, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the basic annual salary of Gerald F. Millea, Administrative Assistant in that Division, be increased from \$7,250 to \$7,570, effective March 25, 1956.

Approved unanimously.

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

The Board of Governors approves the payment of salary to Mr. Tilford C. Gaines as a Manager, assigned to the Securities Department, for the period March 15, 1956, through December 31, 1956, at the rate of \$12,000 per annum which is the rate fixed by your board of directors as indicated in your letter of March 9, 1956.

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 March 9, 1956, the Board approves the designation of Lewis Hassler as a special assistant examiner for the Federal Reserve Bank of Atlanta for the purpose of participating in examinations of State member banks only.

Approved unanimously.

Letter to the Board of Directors, The Cleveland Trust Company, Cleveland, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the southeast corner of Front and School Streets in the City of Berea, Cuyahoga County, Ohio, by The Cleveland Trust Company, Cleveland, Ohio, provided the branch is established within one year from the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

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

Letter to the Board of Directors, The Elyria Savings & Trust Company, Elyria, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the

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Federal Reserve System approves the establishment of a branch at 7077 Avon-Belden Road, North Ridgeville, Lorain County, Ohio, by The Elyria Savings & Trust Company, Elyria, Ohio, provided the branch is established within six months of the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

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

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

As recommended in your letter of March 12, 1956, the Board of Governors extends to September 25, 1956, the time within which Southern Arizona Bank and Trust Company, Tucson, Arizona, may establish a branch in the vicinity of Swan Road and Broadway, Tucson, Arizona.

This extension is granted with the continuing understanding that the branch will be established as a successor to the branch now operating at Alvernon and Broadway, Tucson. It does not appear that the Board's permission to continue operations at the original location pending the establishment of the new branch is necessary.

Please advise the bank of the Board's action.

Approved unanimously.

Letter to the Board of Directors, American Trust Company, San Francisco, 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 by American Trust Company at El Camino Real and California Avenue in Palo Alto, California, instead of on California Avenue between Harvard and Hanover Streets, provided the Superintendent of Banks for the State of California gives his permission to the establishment of the branch at that location and the branch is established within nine months from the date of this letter.

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

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A letter had been received from Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, under date of February 21, 1956, transmitting material relating to an examination of Farmers and Merchants Bank of Rockford, Rockford, Washington, made as of November 10, 1955. The letter contained the comment that "in the light of the lack of progress in eliminating criticisms in examination reports and the disregard of laws, regulations, and State Banking Department directives, it may be that the Board of Governors would consider issuing a warning under section 30 of the Banking Act of 1933." The Legal Division and the Division of Examinations had prepared memoranda stating reasons why it was believed that a warning under section 30 would not be warranted at this time. These memoranda had been circulated to the members of the Board with a suggested draft of reply to Mr. Millard reading as follows:

Reference is made to your letter of February 21, 1956 and enclosures relating to the Farmers & Merchants Bank of Rockford, Rockford, Washington, in which you suggest that consideration might be given to issuing a warning under section 30 of the Banking Act of 1933.

A review of the Report of Examination would seem to indicate that the violations are not of such a nature as would warrant an order under section 30; and the fact that the management's policies appear to be improving would seem to indicate the desirability of postponing, at least for the present, the issuance of a warning by the Federal Reserve Agent. However, the Board will, of course, consider any suggestion or recommendation which you may wish to make at any time.

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In commenting on the matter, Governor Robertson and Mr. Sloan said that the dominant figure in the member bank (Vice President Gene W. Akers), to whom the warning presumably would be issued, evidently had followed practices which were annoying from the standpoint of the local bank supervisory authorities. While the member bank had been considered a problem case for several years, it appeared that its condition was not deteriorating, that in fact some improvement in lending policies was noted, and that the actions of Mr. Akers to which reference was made in the report of examination did not appear to be endangering the soundness of the bank. Governor Robertson suggested that while the difficulties encountered because of Mr. Akers' attitude no doubt had been disturbing to the Reserve Bank and the State authorities and might have seemed to an examiner in direct contact with the situation to suggest a section 30 warning, review of the broader aspects of the case would not appear to justify such a warning, at least at the present time. He pointed out that the San Francisco Reserve Bank did not recommend the issuance of a warning, but merely referred the matter to the Board for consideration.

At the conclusion of the discussion, the letter to Vice President Millard was approved unanimously.

Mr. Sloan then withdrew from the meeting, and Messrs. Thurston, Assistant to the Board, Thomas, Economic Adviser to the Board, and Young, Director, Division of Research and Statistics, entered the room.

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Reference was made to a memorandum from Mr. Conkling dated March 14, 1956, which had been circulated to the members of the Board, recommending, for reasons stated, that captions of loan items on pages 6-9 of the Member Bank Call Report be rearranged and rephrased to reflect the recent revisions in Schedule A, Form F.R. 105, Report of Condition of State Member Banks, provided the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation made similar changes in their reports, which it was understood they planned to do. The memorandum stated that the recommended procedure had been endorsed by the Editorial Committee of the Federal Reserve Bulletin and that it seemed more feasible than the alternatives which were to continue the present arrangement, even in the Member Bank Call Report, or to make a complete change-over in all press statements and other Board publications and releases.

Following explanatory comments by Mr. Conkling, Messrs. Thurston, Riefler, Thomas, and Young each indicated concurrence in the recommended procedure.

Thereupon, the recommendation contained in Mr. Conkling's memorandum was approved unanimously.

Messrs. Leonard and Conkling then withdrew from the meeting.

At the instance of Governor Mills, there was a discussion of the prospective heavy demand for credit during the next several months

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and the effects of alternative System monetary and credit policy actions in the light of that demand and developments in the economy generally, including the increasing pressure upon prices. The discussion was for exploratory purposes and not with a view to deciding on any particular action at this time. It included suggestions as to material which, if made available to the Board and the Federal Open Market Committee, might be of assistance in considering future credit policy actions.

At one stage the discussion turned to the revised reports now being received from the Federal Reserve Banks on member bank borrowing, the prevalence of such borrowing in particular areas, and the tendency on the part of some banks to engage in what might be termed "continuous borrowing" over prolonged periods. It was suggested that a full understanding of the reasons for borrowing in particular areas or by various groups of banks could not be obtained without having more detailed information from the respective Federal Reserve Banks, and consideration was given to whether steps should be taken to obtain such information.

At this point Governor Mills withdrew from the meeting to keep another engagement. Before leaving, he stated that he would be agreeable to whatever decisions were reached by the other members of the Board in connection with the Federal Open Market Committee policy record to be included in the appendix to the Board's Annual Report for 1955.

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The Board then took up the subject of the Open Market policy record. Copies of a revised draft dated February 24, 1956, had been sent to the members of the Board and the comments received concerning that draft were summarized in a memorandum from Mr. Riefler dated March 21, copies of which also were distributed. Mr. Riefler's memorandum indicated that only two questions remained for decision before publication of the record, one having to do with the reference that should be made in the entry for June 22, 1955, to the discontinuance of the executive committee, and the other having to do with a suggestion that the first entry in the record for each meeting be preceded by introductory notes summarizing credit policy actions taken by the Board of Governors since the preceding meeting and the current state of the money market.

With regard to the discontinuing of the executive committee, agreement was expressed with a suggestion which had been made by Governor Robertson that two explanatory sentences in the draft be deleted. This meant that the record would contain simply a statement that the executive committee had been abolished and not discuss the reasons for such action.

With regard to the proposed introductory notes, which had been suggested by Mr. Erickson, President of the Federal Reserve Bank of Boston, it was pointed out that the comments received from the Reserve Bank Presidents reflected differences of opinion as to whether such notes should be included. President Sproul of the Federal Reserve Bank

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of New York had commented that it would be difficult to summarize the state of the money market in a sentence or two and that attempts to do so would lead to distortions of emphasis and to lack of precision. As an alternative, he suggested additional references at appropriate places in the record to credit policy actions taken by the Board of Governors since the previous Open Market Committee meeting.

There was agreement that President Erickson's proposal should not be followed and that President Sproul's alternative suggestion was appropriate.

At the conclusion of the discussion, the draft of policy record, as amended to incorporate the suggestions agreed upon at this meeting, was approved unanimously.

It was stated that subsequent to approval by the Board on February 10, 1956, of the record of Board policy actions for inclusion in the appendix to the 1955 Annual Report, Governor Mills and Mr. Molony, Special Assistant to the Board, had suggested certain changes in the entry for November 17, 1955, relating to an increase in the rate on Federal Reserve Bank discounts and advances.

No objection was interposed to the changes suggested by Governor Mills and Mr. Molony and it was understood that they would be incorporated in the record of policy actions.

The discussion then reverted to the question of seeking further information regarding the pattern of recent member bank borrowing from

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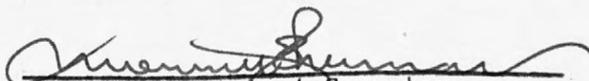
the Federal Reserve Banks. During the discussion the suggestion was made that it might be appropriate to call a meeting of the Federal Reserve Bank discount officers in view of developments with respect to the discount function since the first meeting of that group in the spring of 1955. However, no decision was reached on this point.

The meeting then adjourned.

The above is a summary of the meeting.

with respect to the meeting of the discount officers in view of developments with respect to the discount function since the first meeting of that group in the spring of 1955. However, no decision was reached on this point.

Should you have any questions regarding the minutes of the meeting, please contact the Assistant Secretary. If you would like a copy of the minutes, please refer to the list below to determine the appropriate contact person.


Assistant Secretary

Chas. Murphy

Gov. Clayton

Gov. Vandenberg

Gov. Hill

Gov. Robertson

Gov. Buffett

Gov. Chapman