

Minutes for March 26, 1956

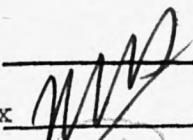
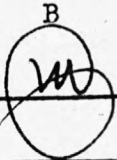
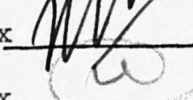
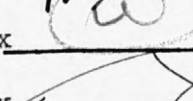
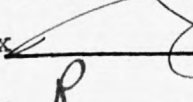
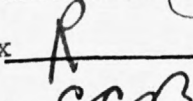
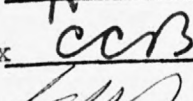
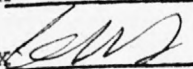
To: Members of the Board

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	<u></u>	x <u></u>
Gov. Szymczak	x <u></u>	<u> </u>
Gov. Vardaman	x <u></u>	<u> </u>
Gov. Mills	x <u></u>	<u> </u>
Gov. Robertson	x <u></u>	<u> </u>
Gov. Balderston	x <u></u>	<u> </u>
Gov. Shepardson	x <u></u>	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 26, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant 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. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Solomon, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations

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 12, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Dorothy A. Culbertson, Statistical Clerk in that Division, be accepted, effective March 24, 1956.

Approved unanimously.

Telegram to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

Reurtel March 20, 1956, Board approves the designation of William Adrian Van Aartsen as a special assistant

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examiner for the Federal Reserve Bank of Boston.

Approved unanimously.

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

In accordance with the request contained in your letter of March 15, 1956, the Board approves the designation of Loren W. Banner as a special assistant examiner for the Federal Reserve Bank of Chicago.

The authorization heretofore given your bank to designate Mr. Banner as a special assistant examiner is hereby cancelled.

Approved unanimously.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

In accordance with the request contained in your letter of March 9, 1956, the Board approves the appointment of Harold E. Uthoff as an assistant examiner for the Federal Reserve Bank of St. Louis. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

Reference is made to your letter of March 16, 1956, regarding the request of the Bank of the Commonwealth, Detroit, Michigan, for an extension of time within which to establish a branch on the north side of Gratiot Avenue near Mohican Avenue in Detroit, Michigan.

In view of the delays encountered in completing construction of the branch building, the Board concurs in your favorable recommendation and extends to September 27, 1956, the time within which the Bank of the Commonwealth may establish the above-described branch, as originally

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approved in the Board's letter of June 27, 1955, provided approval of the State authorities is effective as of the date the branch is established.

Approved unanimously.

Memorandum dated March 20, 1956, from Mr. Sloan, Director, Division of Examinations, requesting that authority be granted for (1) a reception in connection with the eleventh session of the School for Assistant Examiners of the Inter-Agency Bank Examination School on Monday, March 26, at 4:30 p.m. in the staff dining room, and (2) a luncheon for members of the School in the staff dining room on March 28 at 1:00 p.m.

Approved unanimously.

Letter to Mr. N. A. Bogdan, President, American Overseas Finance Corporation, 30 Pine Street, New York, New York, reading as follows:

This refers to your letter of March 9, 1956 in which you state that your corporation has had occasion to consider the extension of loans to foreign obligors which are either (i) partially convertible into common stock of the obligor or (ii) accompanied by an option in your favor on a specified amount of common stock of the obligor. In either case the option or right to convert would be exercisable at the sole discretion of your Corporation.

You further describe the situations involving such conversion provisions or options substantially as follows:

As a matter of policy you always make sure that loans which you grant are adequately matched by the provision for equity capital from sources other than your Corporation. In every case the conversion or stock option feature would be strictly incidental to the making of the loan itself, with the usual terms and conditions of the loan being determined on the basis of your evaluation of all applicable credit factors. A conversion or stock option feature would establish a relationship which would facilitate your consideration of additional financial accommodation when and if needed. Should the stock increase in value, particularly in the case of a new venture which develops into a prosperous enterprise, your Corporation would also be in a position to dispose of the stock at a profit at a later date. In every instance

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exercise of the option or conversion privilege would be subject to your determination at some future date of the advisability of utilizing the right, and you may elect not to exercise it in any case. In no event do you envisage the payment by your Corporation of any sum for such a right.

The Board agrees with your conclusion that under section 25(a) of the Federal Reserve Act and the existing provisions of section IX of Regulation K, the consent of the Board of Governors would be required before your Corporation could exercise any conversion privilege or option under an arrangement such as that described above, but that such consent would not be required at the time a loan involving such an option or conversion feature is established or committed by your Corporation.

Following comments by Mr. Solomon, the letter was approved unanimously, for transmittal through the Federal Reserve Bank of New York.

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

Atlanta	March 19
St. Louis	March 19
New York	March 22
Philadelphia	March 22
Cleveland	March 22
Richmond	March 22
Chicago	March 22
Minneapolis	March 22
Kansas City	March 22
Dallas	March 22

Approved unanimously.

In connection with the foregoing action relating to the re-establishment of existing discount rates, there was a discussion of the reasons

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Why Federal Reserve Banks sometimes follow the practice of establishing rates of discount, subject to review and determination by the Board of Governors, more frequently than at the intervals of 14 days prescribed by section 14(d) of the Federal Reserve Act.

Governor Robertson then suggested that the Legal Division be requested to review the practices followed by the Federal Reserve Banks in establishing, and by the Board in approving, rates of discount at the respective Banks. The objective of such a review, made in the light of the statutory provisions and pertinent letters sent by the Board to the Reserve Banks in the past, would be to provide assurance as to the propriety of current procedures.

Agreement having been expressed with Governor Robertson's suggestion, it was understood that the Legal Division would make a review of the kind which he had proposed.

A letter had been received from the Federal Reserve Bank of Philadelphia under date of March 2, 1956, advising that on December 30, 1955, the Land Title Insurance Company, a wholly-owned subsidiary of Land Title Bank and Trust Company, Philadelphia, Pennsylvania, merged with Commonwealth Title Insurance Company to form Commonwealth Land Title Insurance Company, in which all or a majority of the stock is owned by Philadelphia banks. The letter pointed out that when the Land Title Bank and Trust Company was admitted to membership in the Federal Reserve System

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on June 19, 1953, it divorced its title insurance business by organizing the Land Title Insurance Company. The Reserve Bank expressed the view that the merger of the two title insurance companies was a constructive step, since it had the effect of eliminating the Land Title Insurance Company as a wholly-owned subsidiary of the State member bank.

In a memorandum dated March 15, 1956, which had been circulated to the members of the Board, Mr. Hooff, Assistant Counsel, reviewed the matter from the standpoint of whether the exchange of stock involved in the merger of the title insurance companies amounted to a violation of section 5136 of the Revised Statutes, which prohibits the "purchase" of corporate stock. For reasons stated in the memorandum, including the fact that the Reserve Bank and the Board's Division of Examinations and Legal Division believed the merger to be a constructive step, it was recommended that the letter from the Reserve Bank, which was transmitted to the Board merely for its information, be filed without reply.

In a discussion of the matter, Governor Robertson recalled that when the application of the Land Title Bank and Trust Company for admission to membership in the Federal Reserve System was being considered by the Board he took the position that the trust company should not be permitted to become a member bank and retain the title insurance business, either direct or through a subsidiary. For reasons stated at that time, he continued to feel that member banks should not be engaged in a title insurance business. It was his view, therefore, that Land Title Bank

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and Trust Company should be required to dispose of its stock in Commonwealth Land Title Insurance Company within a reasonable length of time. In response to a question by Governor Shepardson, he said that his position applied not only to this one institution but to all member banks holding stock in title insurance companies.

Governor Robertson's views having been noted, it was agreed to file the letter from the Federal Reserve Bank of Philadelphia without reply.

Messrs. Sloan, Solomon, and Goodman then withdrew from the meeting.

Governor Balderston referred to the authorization given to him at the meeting on March 16, 1956, to act on behalf of the Board with respect to negotiating for the lease of space in a building at 1825 H Street to house some of the Board's operations. He said that since that time arrangements had been completed to shift certain units within the Federal Reserve Building in such a way as to provide sufficient space for the time being and probably for the remainder of the current year. In the circumstances, he felt it inadvisable to lease space outside the building at present. However, he recommended that funds be authorized for the Division of Administrative Services (1) to purchase metal furniture for seven offices made available through contemplated shifts within the building, and (2) to retain Mr. Persina, Consulting Architect to the

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Board, to study the redecorating and revamping of the Board Members' dining room (the so-called Brown Room) and to review in some detail plans prepared some years ago for closing in the wings of the building to provide additional space. In amplifying on the work which would be done by Mr. Persina, Governor Balderston said that he would be expected to give an opinion on the feasibility of an arrangement which would permit combining into one room, when necessary, the Brown Room and the adjoining Blue Room. Mr. Persina also would be asked to check over carefully the existing plans for an addition to the Federal Reserve Building on the lot across "C" Street which is owned by the Board. Governor Balderston suggested authorizing up to \$1,000 for the services of the architect and up to \$5,500 for the new furniture.

During a discussion of Governor Balderston's report, Governor Vardaman suggested that consideration be given to the possible relocation of the infirmary now situated on the fourth floor of the building, with a view to providing additional space for dining facilities. He also asked whether the authorization of funds proposed by Governor Balderston would be sufficient.

Governor Balderston responded by saying that according to the estimates that had been made the figure of \$6,500 should be sufficient, with perhaps a little leeway. However, in order to avoid the possibility of having to raise the question with the Board again, he suggested that \$7,000 be authorized.

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Governor Mills said that he would have no question about authorizing the sum of \$7,000 for the purposes mentioned if it were the sense of the Board that the space changes within the building should be made and further steps taken looking toward a possible alteration of the building. Personally, he had some doubts about these proposals, including the proposal to move the Research Division's Government Finance Section to the first floor.

Following Governor Mills' comments, Mr. Bethea reviewed in detail the shifts in quarters that would be made according to the present plans.

Governor Balderston then made a further statement in which he said that the space problem had been discussed fully with members of the staff, that the proposed arrangements seemed to be as good as could be worked out, that the space in some offices would continue to be cramped, but that in the absence of unexpected developments it seemed that enough space would be available to accommodate the Board's activities at least for the balance of this year. Then, if a decision should be made not to erect an addition to the building or make alterations to the structure, and if it developed that the present building could not accommodate the Board's activities, it would be hoped that it might be possible to find space as good as or better than that which would now be available in the building at 1825 H Street.

Thereupon, it was voted to authorize the expenditure of up to \$7,000 for the equipment and architectural services mentioned by

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Governor Balderston, it being understood that Governor Mills had doubts regarding the wisdom of certain changes in office quarters now being planned and regarding the feasibility of altering the building to provide additional space.

Mr. Thomas referred to the action taken by the Board on March 15, 1956, in authorizing that an invitation be extended to the Treasury Department to have the commercial bank economists participating in its forthcoming seminar visit the Board's offices on Wednesday, May 9, for an economic presentation and luncheon in the staff dining room. He reported that there had now been certain changes in the plans of the Treasury and that it appeared the Treasury might like to have the program at the Board arranged for Thursday, May 10.

It was understood that there would be no objection to the change in dates mentioned by Mr. Thomas.

Mr. Bethea then withdrew from the meeting.

Governor Vardaman referred to an article in the February 1956 issue of the employees' magazine published by the Federal Reserve Bank of Cleveland regarding sales made to employees through the store which has been operated by the Cleveland Federal Reserve Club since February 1952. He raised the question whether such an activity should be conducted within a Federal Reserve Bank and suggested that publicity incident to such a venture might provoke criticism.

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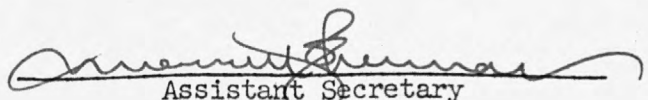
At the Board's request, Messrs. Leonard and Johnson commented on a similar activity at the Federal Reserve Bank of New York and stated that to the best of their knowledge such operations were not carried on at the other Reserve Banks, except perhaps to the extent of arranging group purchases of various articles. This led to a discussion of group purchases arranged for Board employees through the Federal Reserve Board Club.

Governor Vardaman then suggested that it might be well to have the Divisions of Bank Operations and Personnel Administration provide the Board with a memorandum covering operations of the kind in question both at the Federal Reserve Banks and at the Board.

Agreement was expressed with Governor Vardaman's suggestion and it was understood that material of the kind to which he referred would be prepared for the Board's information.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated March 22, 1956, from Mr. Young, Director, Division of Research and Statistics, Governor Balderston today approved on behalf of the Board the appointment of Laura Bruce Robinson as Clerk in that Division, with basic salary at the rate of \$3,670 per annum, effective as of the date she assumes her duties.


Assistant Secretary