

Minutes for April 6, 1956.

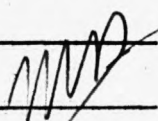



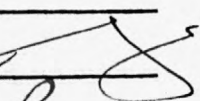

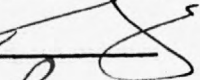



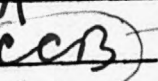

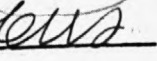

To: Members of the Board

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 6, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Noyes, Adviser, Division of Research and Statistics  
Mr. Koch, Assistant Director, Division of Research and Statistics  
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics

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 April 2, 1956, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of Douglas L. Orre as Assistant Federal Reserve Examiner in that Division, with basic salary at the rate of \$4,525 per annum, effective as of the date he assumes his duties.

Approved unanimously.

Memorandum dated April 2, 1956, from Mr. Young, Director, Division of Research and Statistics, (prepared pursuant to the Board's action of March 28, 1956, approving the appointment of Roland I. Robinson as a member of the staff of that Division) recommending the appointment of Mr. Robinson as Adviser, with basic salary at the rate of \$15,000 per annum, effective as of the date he assumes his duties. The memorandum also recommended that a full field investigation be instituted for Mr. Robinson to clear him for access to classified information.

Approved unanimously.

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Memorandum dated March 30, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Louise Root, Editorial Clerk in that Division, be accepted effective April 13, 1956.

Approved unanimously.

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

In accordance with the request contained in your letter of March 29, 1956, the Board approves the appointment of Daniel Aquilino as an examiner for the Federal Reserve Bank of Boston. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to Mr. Waage, Secretary, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of March 23, 1956, advising that, in response to the request from the Honduran Government to the Department of State for assistance of Federal Reserve banking experts, Mr. Donald C. Niles, Manager, Planning Department, and Mr. Harry J. Meyer, Supervising Examiner, Bank Examinations Department, have been granted leaves of absence with pay for a period of approximately eight weeks, plus necessary travel time, beginning on or about April 15. It is noted that Mr. Niles will be concerned with banking procedures and methods of operation of the Central Bank and the Development Bank of Honduras, and Mr. Meyer with the examination of these two institutions and an appraisal of their own examination procedures.

The Board of Governors interposes no objection to the arrangements with respect to Mr. Niles and Mr. Meyer as described in your letter.

Approved unanimously.

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

In accordance with the recommendation contained in your letter of March 27, 1956, the Board of Governors

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extends to July 2, 1956, the time within which Metairie Savings Bank & Trust Company, Metairie, Louisiana, may establish a branch in the Azalea Gardens Shopping Center on Jefferson Highway above Shrewsbury Road under the approval given by the Board in its letter of April 7, 1955, which provided that the existing branch on Jefferson Highway near Harlem Street should be simultaneously discontinued. Please advise the trust company accordingly.

Approved unanimously.

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

Reference is made to your letter of March 26, 1956, submitting the request of the Citizens Bank of Poquoson, Poquoson, Virginia, for the Board's approval under the provisions of Section 24A of the Federal Reserve Act, of an additional investment of \$50,000 in bank premises to cover the cost of new banking quarters.

After consideration of the information submitted the Board concurs in the recommendation of the Reserve Bank and approves an additional investment in bank premises by Citizens Bank of Poquoson of not to exceed \$50,000 which amount includes the cost of the land on which the new building will be located.

It is understood that the present building occupied by the bank will be sold and the proceeds applied to the reduction in investment in banking premises.

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Reference is made to your letter of March 27, 1956, submitting the request of The Farmers and Merchants Bank of Rich Creek, Rich Creek, Virginia, for the Board's approval under Section 24A of the Federal Reserve Act of an additional investment not to exceed \$140,000 in bank premises to cover the cost of new banking quarters.

After consideration of the information submitted, the Board concurs in the recommendation of the Reserve Bank



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and approves an additional investment in bank premises by The Farmers and Merchants Bank of Rich Creek, Virginia, of not to exceed \$140,000, which amount is to include the cost of the land on which the new building will be located.

It is understood that the present building will be sold and the proceeds applied to the reduction in investment in banking premises.

Approved unanimously.

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

Reference is made to a letter from your office dated February 17, 1956, enclosing photostatic copies of an application to organize a national bank at Hialeah, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure of the bank would be adequate. The prospects for earnings of the institution appear to be only fair, and the general character of the management is not regarded favorably because of the lack of banking experience among the members of the proposed board of directors and the fact that arrangements have not been made for an experienced operating management. There is some question as to the need for a bank in the area, although it undoubtedly would provide more convenient facilities for the residents. While it is recognized that this is a borderline case, the Board of Governors 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.

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Reference is made to a letter from your office dated February 2, 1956, enclosing photostatic copies of an

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application to organize a national bank at Cocoa, Florida, 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 Atlanta discloses generally satisfactory findings with respect to the factors usually considered in connection with such applications, except that the proposed capital structure of the bank may be somewhat weak. This report discloses that a State bank is in the process of organization at Cocoa Beach, located approximately 11 or 12 miles from the site of the proposed national bank, and some question exists regarding the need for two banks in the area at this time. After considering all of the information available, the Board of Governors recommends approval of the application, provided arrangements are made for a capital structure satisfactory 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.

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Reference is made to a letter from your office dated January 12, 1956, enclosing photostatic copies of an application to organize a national bank at Ormond Beach, Florida, 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 Atlanta discloses fairly satisfactory findings with respect to the factors usually considered in connection with such applications, except that definite arrangements have not been made with respect to operating management of the bank. The report indicates that the proposed bank would be an added convenience; that a sizeable volume of deposits would be available; but that some question exists as to the demand for bank credit in the area. After considering all of the information available, the Board of Governors recommends approval of the application, provided arrangements are made for executive management satisfactory to your office.

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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  
copies to the Federal Reserve  
Bank of Atlanta.

Letter to Mr. Frank J. Rothing, Assistant Vice President, Midwest Stock Exchange, Chicago, Illinois, reading as follows:

This refers to your letter of March 12, 1956, concerning the information to be included in an application for an extension of time for settlement of a transaction in a special cash account under section 4(c) of Regulation T. You inquired, particularly, whether such an application should include the name and address of the customer, or whether it would be sufficient for the customer to be identified merely by the number of his account with the broker making the application.

In connection with a matter of this kind, it is important to keep in mind that a special cash account under section 4(c) may be used only for "bona fide cash transactions in securities." Furthermore, under section 4(c)(1)(A) a purchase of a security for, or the sale of a security to, a customer by a broker in such an account, is not permissible unless "funds sufficient for the purpose are already held in the account, or the purchase or sale is in reliance upon an agreement accepted by the creditor (broker) in good faith that the customer will promptly make full cash payment for the security . . . ." If full cash payment is not made by the customer within seven full business days following the purchase, the broker is required by section 4(c)(2) promptly to cancel or otherwise liquidate the transaction or the unsettled portion thereof, subject to certain exceptions.

As you indicated, one of the exceptions is contained in section 4(c)(6) which provides, in part, that if an appropriate committee of a national securities exchange "is satisfied" that the broker is "acting in good faith in making the application," that the application relates to "a bona fide cash transaction," and that "exceptional circumstances warrant such action," such committee, on application of the broker, may

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extend the seven-day period for one or more limited periods "commensurate with the circumstances." The limited exception in section 4(c)(6), therefore, is not available unless it is the considered judgment of the committee that (1) the broker is acting in good faith, (2) that the transaction is a bona fide cash transaction, and (3) that exceptional circumstances warrant an extension of time as specified in the section. While section 4(c)(6) does not prescribe the precise manner or form for the submission of applications for extensions of time, the regulation clearly contemplates that the committee will have before it that information which, in its discretion, is necessary in order that it may exercise a sound judgment in each case in the light of the relevant provisions of the regulation.

In this connection, an interpretation of the Board dealing with special cash accounts which was published in the 1940 Federal Reserve Bulletin, p. 1172, states that any delay by the customer in making full cash payment promptly in accordance with section 4(c)(1)(A) may cast doubt on the original status of the transaction and should be explainable by exceptional circumstances that justify the delay; that repetition of delays by the customer would be especially hard to justify; and that such repetition would almost conclusively label his transactions as unable to qualify as bona fide cash transactions and would almost conclusively disqualify them for inclusion in a special cash account.

Frequent applications for extensions of time for the same customer, either by the same or different brokers, would be especially important information for consideration by a committee in exercising its function under section 4(c)(6), since the circumstances would strongly suggest either that the transactions were not bona fide transactions or that there were, in fact, no exceptional circumstances warranting an extension of time. In view of the limited information provided by a mere identification of a customer by his account number, the Board believes it would be virtually impossible except perhaps in some rare situations for a committee to exercise its functions properly without the additional information provided by the name and address of the customer.

Approved unanimously, with the understanding that copies would be sent to the Federal Reserve Banks for their information.



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Letter for the signature of Governor Szymczak to the Honorable J. W. Fulbright, Chairman, Committee on Banking and Currency, United States Senate, reading as follows:

This refers to that portion of your letter of October 25, 1955, requesting data on stock market activity of personal trusts, and to Mr. Koch's of January 9 to Mr. Achinstein, confirming the method and scope of the survey.

Enclosed are (1) tables of aggregate monthly purchases and sales for all common stocks and for each of the 25 common stocks that you selected, (2) sample copies of the questionnaire and the accompanying letter to the banks containing the request and instructions, (3) the supplementary information on aggregate holdings and market of transactions requested in Mr. Wallace's letter of November 17, 1955, and (4) a brief technical note outlining the limitations and scope of the survey.

Approved unanimously.

With reference to the foregoing letter to Senator Fulbright, Governor Mills inquired of Mr. Koch whether the survey had developed significant information on the investment activities of bank-administered personal trusts.

In response, Mr. Koch made a statement in which he pointed out that the sample taken to supply the information specifically requested by the Banking and Currency Committee was so small, and the questionnaire so restricted in scope, as to impose severe limitations from an analytical standpoint. In the circumstances, one could hardly do more than make a few observations, for example, that the volume of purchases and sales of common stocks for account of the selected personal trusts varied

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greatly as between individual banks and particular trusts. While the results of the survey appeared to give some indication of a tendency to sell common stocks on a rising market and one could infer that some of the funds might have been reinvested in Government securities, the data obtained did not permit specific conclusions. Mr. Koch also stated that the System ad hoc committee which had been reactivated to explore the development of statistics in the area of personal trusts had now drawn up plans to obtain more comprehensive data in that field.

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:

St. Louis	April 2
New York	April 5
Cleveland	April 5
Richmond	April 5
Chicago	April 5
Minneapolis	April 5
Kansas City	April 5
Dallas	April 5

Approved unanimously.

There were distributed to the members of the Board copies of a memorandum from Mr. Leonard dated April 5, 1956, relating to a telephone call from Mr. Austin, Vice President of the Federal Reserve Bank of Dallas, who stated that the Bank's Building Committee had approved preliminary plans for an addition to and alterations of the head office building, that the program would be presented to the Board of Directors

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at its meeting next week, and that a question had arisen regarding certain proposed alterations to provide space for the national bank examiners in the Dallas District. Plans for the building program provided that the national bank examiners, the Federal Deposit Insurance Corporation's examiners, and the Reserve Bank's examiners all would occupy space on the sixth floor of the present building. Since the national bank examiners' present lease was to expire June 30, 1956, and would not be renewed, an element of urgency was involved. According to Mr. Austin, the cost of preparing the space on the sixth floor therefore would be somewhat greater than if the changes were made as part of the over-all program.

In commenting on the matter, Mr. Leonard said there might be some doubt as to whether the proposed alterations to the sixth floor were such as to require the approval of the Board, but that it seemed advisable to bring the matter to the Board's attention. The only question of any substance, he said, grew out of the fact that the preliminary plans and specifications for the whole building program had not yet been approved by the Board. In the event, which seemed quite unlikely, that the plans and specifications were not approved, the Reserve Bank already would have gone ahead with one phase of the program.

Governor Robertson considered it highly desirable for the examiners of the three Federal bank supervisory agencies to have their

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quarters in the same building. He pointed out that if the national bank examiners should have to locate other quarters at this time, it might be difficult for them to move to the Reserve Bank when the space became available.

Thereupon, unanimous approval was given to a telegram to Mr. Irons, President of the Federal Reserve Bank of Dallas, reading as follows:

Board understands that contemplated program for addition to and alterations of head office building will provide space for national bank examiners. Yesterday Austin called and advised that national bank examiners must vacate present quarters in June, as owners will not renew lease. Austin reported that in circumstances Bank would like to proceed immediately with alteration of space for occupancy by national bank examiners in manner consistent with contemplated alteration program. Board has no objection to proposal as outlined by Austin.

Mr. Leonard then withdrew from the meeting and Messrs. Thurston, Assistant to the Board, Sherman, Assistant Secretary, and Young, Director, Division of Research and Statistics, entered the room.

At the meeting on April 3, 1956, there was a discussion of the establishment by the Board of Directors of the Federal Reserve Bank of Atlanta of a discount rate of 2-3/4 per cent, subject to review and determination by the Board of Governors. Yesterday a telegram was received from Mr. McCreedy, Vice President and Secretary of the Federal Reserve Bank of Philadelphia, stating that the Board of Directors of that Bank



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had established, subject to the Board's approval, rates of 2-3/4 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, 3-1/4 per cent on advances under section 10(b), and 3-1/2 per cent on advances under the last paragraph of section 13.

At the request of the Board, Mr. Koch reviewed recent developments with respect to bank credit, the money market, and related matters. He said that whereas earlier this year the business and financial community had been thinking in terms of a moderately strong demand for credit, the situation changed in March and the demand became very strong. Whether heavy repayments would develop still was not clear, for although the most recent weekly report showed a substantial decline in loans at New York banks, loans at Chicago banks were higher and the decline in New York appeared to have resulted mainly from repayments in one industrial classification. Recently, the demand for consumer and real estate loans at city banks had also been heavy. Banks were not selling as many Government securities out of their portfolios as they had previously, which would indicate pressure on their liquidity ratios. At the same time, borrowing from the Federal Reserve System had been heavy, with much of the borrowing concentrated in a relatively small number of banks, some of whom were "continuous borrowers". For the calendar year to date the loan increase was a little greater than during the same period last year and in March the increase was much larger than that recorded in 1955. Also,

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the credit demand through the capital market continued to be exceedingly heavy. The decline in Government bond prices until two days ago made it appear that the market might have substantially discounted an increase in the discount rate, but the subsequent upswing raised a question in this respect. Also, in the short-term money market rates were still more consistent with the present than a higher discount rate.

Turning to the question whether the System was achieving its policy objectives without a change in the discount rate, Mr. Koch said that although some degree of restraint no doubt was being exercised, it seemed clear that certain prospective developments would at least be slowed down if the atmosphere were cleared by an increase in the rate. He felt that two likely results of such an increase would be an adjustment of the prime rate on commercial bank loans and a change in the level of short-term money rates.

Mr. Miller continued the discussion of recent developments in the Government securities market by reviewing the increase in rates which started about the first of March and continued in a fairly orderly fashion until the beginning of this week. A sharp decline in bond prices occurred in a rather thin market on Monday, but with increasing volume on Tuesday. The reversal of this trend on Wednesday and Thursday might have represented a technical readjustment. The changes during the past month apparently could be attributed to a large extent to a general realization of a

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change in the business outlook, or at least a turn-around in the thinking of market participants who previously had anticipated some relaxation of Federal Reserve policy. This shift in thinking appeared to have been reinforced by the capital expansion programs announced recently. Municipal and corporate markets also reflected these developments and their recent price declines also were having an impact on the Government securities market. Most market participants were not "bullish" on the bond market and appeared to anticipate some further decline in prices. Projections of net borrowed reserves of member banks indicated a substantial decline from the current level during the next three or four weeks.

Mr. Riefler said that as he interpreted the bond market movement this week, he felt that the business outlook had changed, that higher money market rates obviously were in prospect, and that the market had begun to respond to that situation, with the result that Government bond prices went down rapidly. Then, when it was found that few securities were offered at the market prices, a technical readjustment took place. He felt that there would be a greater disposition on the part of member banks to use the Federal Reserve discount window than to sell securities to meet the demands for credit.

Mr. Riefler then said that he talked to Chairman Martin by telephone last night and that the Chairman would prefer not to act on the discount rate increase until next week. If the New York Bank's directors had acted to increase that Bank's rate yesterday, the Chairman would have

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been impressed, but in the present circumstances it was his feeling that the Board should defer acting on the Atlanta and Philadelphia rates. Mr. Riefler also said that the Chairman had indicated that he would call on the telephone about 11 o'clock this morning.

Governor Mills said that in view of the information which had been presented this morning, it was now his feeling that the Board should act today to approve the increased discount rate at Atlanta and Philadelphia. In so doing, he felt, the Board would confirm the market's adjustment to the rates that came out of the change in Government bond prices during the last week. On the other hand, if the Board should stand by without acting, it might create the erroneous impression in the business and financial community that the Board had not recognized the change in rates. Also, in the light of the substantially lower negative free reserve position of member banks that was reported yesterday in the weekly condition statement, it might appear that System policy was moving in the direction of passiveness, or at least not toward a tightening of credit conditions against the obviously increasing demand for credit. With regard to the Treasury bill auction which would take place on Monday, he said that if the Board did not act today, the bidders would be in a difficult position should they place their bids and then find out a few hours later that a change in the rate had been approved. In summarizing, Governor Mills said that in justice to those bidding for bills and in



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order to confirm the securities situation and the general impression that rates were stiffening against a higher level of business, it was his view that the Board should act on the discount rate today.

Governor Robertson expressed agreement with the analysis presented by Governor Mills and said that he also would favor acting on the discount rate today, provided Chairman Martin had no other information which would make it seem advisable to consider deferring action until next week.

Governor Shepardson referred to statements by the staff which indicated that market participants might have interpreted the drop in negative free reserves shown in yesterday's weekly statement as a relaxation of Federal Reserve policy. In the circumstances, he felt there was something to be said for countering as quickly as possible any misinterpretation on the part of the market. As between acting today or Monday, he thought it advisable to keep in mind what Governor Mills had said regarding the Treasury bill auction.

Governor Szymczak stated that he also would favor acting today on the discount rate unless, as Governor Robertson had suggested, Chairman Martin had additional information which would make it seem advisable to postpone such action.

Mr. Noyes then commented on the most recent statistics concerning automobile production and sales which indicated that the rate of sales

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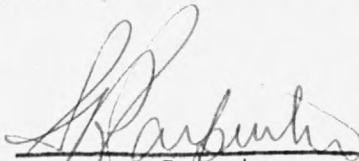
of new cars was such as to produce a relatively optimistic picture. As to department store statistics, he said that sales for the month of March, seasonally adjusted, were at about the same level as for February, and that they must be interpreted in the light of poor weather conditions which prevailed in certain parts of the country.

At this point Mr. Vest, General Counsel, joined the meeting.

Following further discussion, a telephone call was received from Chairman Martin and Governor Szymczak related the developments reported by the staff at this meeting, together with the views expressed by the members of the Board.

Chairman Martin commented that unless in the opinion of the other members of the Board there were urgent reasons for acting today, he would be inclined to consider it preferable to defer action on the discount rate until as late as Thursday of next week, when all of the members of the Board would be present. He pointed out that last Tuesday when the Board discussed the matter there were some differences of opinion as to the timing of such action. In view of the fact that three members were out of town today he thought there was a point in postponing approval so the record might show that the full Board was in agreement with the action. He went on to say that this would also permit further discussion of the subject with other interested parties in the Government on the basis that there were no differences of opinion within the Board.

The meeting then adjourned.

  
Secretary