

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on April 12, 1956.

It is proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 6 Approval of discount rate of 2-3/4 per cent for the Federal Reserve Banks of Boston, Philadelphia, and Atlanta, and 3 per cent for the Federal Reserve Bank of San Francisco; Agreement that if any other Federal Reserve Banks should advise during the day of the establishment of rates of 2-3/4 per cent or 3 per cent on discounts and advances under sections 13 and 13a and appropriate rates on other discounts and advances, they should be advised that the Board approved such rates.

Unless you have some question, please initial below to indicate that you approve the minutes and the inclusion in the policy record of the above item.

Should you have any question, please advise the Secretary's Office of your wishes.

Chm. Martin

Gov. Szymczak

Gov. Vardaman

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 12, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary  
 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  
 Messrs. Young, Noyes, Garfield, and  
 Williams, Miss Burr, and Messrs. Koch,  
 Brill, Eckert, Gehman, Miller, Jones,  
 Weiner, Trueblood, Wernick, and Wood,  
 of the Division of Research and Statistics

The members of the Research Division presented a review of business and financial developments which indicated strength in the economy and a prospective heavy and continuing demand for credit.

During the presentation by the research staff Governor Vardaman joined the meeting. At its conclusion all of the members of the staff of the Division of Research and Statistics except Mr. Young withdrew.

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:

Letter to Mr. Russell G. Smith, Executive Vice President, Bank of America, New York, New York, reading as follows:

In accordance with the request contained in your letter of March 26, 1956, transmitted through the Federal Reserve

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Bank of New York, the Board of Governors grants its consent to your bank for permission to purchase an additional Pesos 1,000,000 par value shares of the capital stock of Descuento Agricola, S. A., Sociedad Financiera Fiduciaria y de Ahorro, Mexico, D. F., Mexico, for Pesos 1,000,000, representing the equivalent of approximately US\$80,000.

As indicated in the Board's letter of June 2, 1953 granting consent to your purchase of shares of the proposed Financiera, the Board's approval of the proposed purchase of the additional stock is given with the understanding that Bank of America will be expected to dispose of the stock of Descuento Agricola, S. A., as promptly as practicable in the event that operations of Descuento Agricola, S. A., should at any time be inconsistent with the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York, with a copy to the Federal Reserve Bank of San Francisco.

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

Reference is made to your letter of March 14, 1956, transmitting the report of examination of the Mercantile Trust Company, St. Louis, Missouri, made as of December 9, 1955, in which you indicate that the practice of the trust company in amortizing nonexempt securities to the nearest "call date" rather than to maturity appears to constitute a violation of the regulation of the Comptroller of the Currency issued under authority of Section 5136 U.S.R.S. You request advice as to whether the Comptroller has made any exception to his regulation which would be applicable to this situation, as well as an expression from the Board regarding the matter.

It appears from the information contained in the report of examination and your letter that your conclusion is based on the provisions of Section II, Paragraph (4) (a) of the Investment Securities Regulation of the Comptroller of the Currency, and that you have not given consideration to

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Paragraph 610 of the Digest of Rulings issued by the Comptroller which specifically relates to the "Amortization of premiums on securities bought at above face value", or to the Division of Examinations' letter of December 15, 1937 (F.R.L.S. #7042), which supports the ruling of the Comptroller, i.e., that the amortization of premium on securities to the nearest call date applicable at any given time during the term of such security is permissible.

If the Board has misinterpreted your inquiry, we shall, of course, be glad to consider any further information or comments you may care to submit in regard to this matter.

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 January 11, 1956, enclosing photostatic copies of an application to organize a national bank at Port Lavaca, Texas, 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 Dallas discloses fairly satisfactory findings with respect to the factors usually considered in connection with such proposals, although some doubt is expressed as to the need for the bank at this time. It is indicated that another bank in the area would be needed in the near future on the basis of projected industrial and economic expansion expected in the community. In the circumstances, the Board of Governors recommends 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.

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



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Letter to the Presidents of all Federal Reserve Banks reading as follows:

Enclosed is a supply of Form F.R. 243, Officers' Biographical Sketch, which has been revised to provide for recording biographical information on an expanded and more uniform basis. The revised form replaces the Form 243 issued in connection with the Board's letter of January 29, 1936, X-9470, and the further use of that form should be discontinued. Additional copies of the revised form will be furnished upon request.

As requested in the Board's letter of October 14, 1947, (S-994, F.R.L.S. #3080), please continue to keep the Board currently advised of any changes in the biographical data submitted relating to officers and directors.

The Board of Governors would like to have in its files, for identification purposes, photographs of all officers of the Federal Reserve Banks and Branches. It will be appreciated, therefore, if, at your convenience, you would furnish the Board with recent photographs of the officers of your Bank and Branches, if any. In the future, please submit a photograph of each newly appointed officer with his biographical sketch.

Approved unanimously.

There had been circulated to the members of the Board a memorandum dated April 6, 1956, from Mr. Leonard, Director, Division of Bank Operations, commenting on detailed plans and specifications for a new Houston Branch building which had been submitted by the Federal Reserve Bank of Dallas. Attached to the memorandum was a letter dated March 16, 1956, from President Irons which advised that the plans and specifications had been approved unanimously by the boards of directors of the Bank and the Branch. Mr. Leonard's memorandum stated that the plans had been reviewed

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by Mr. Persina, Consulting Architect to the Board, who subsequently met in Dallas with officers of the Reserve Bank and the architects for the building, at which time agreement was reached on certain technical changes in the plans and specifications, including the calling for a number of alternates in the bids in the hope of effecting a reduction in costs. Subject to this agreement, Mr. Persina recommended acceptance of the final plans and specifications. In the circumstances, Mr. Leonard's memorandum recommended that a telegram reading as follows be sent to President Irons:

Board interposes no objection to your Bank's calling for bids for construction of a new building for the Houston Branch on the basis of the plans and specifications referred to in your letter of March 16 and Austin's letter of February 8, as modified in accordance with the understandings reached at the meeting of the architects at your Bank on March 15.

Approved unanimously.

As the result of discussion by the Board on March 1, 1956, of a question which had arisen under the recent amendment to the Rules and Regulations of the Retirement System of the Federal Reserve Banks providing increased retirement allowances for employees involuntarily separated from service under certain circumstances, it was understood that the interpretation of the amendment would be discussed with the Reserve Bank Presidents following the meeting of the Federal Open Market Committee on March 6. However, since time did not permit, it was suggested that the matter be put on the agenda for the forthcoming meeting of the Presidents' Conference. Accordingly, a letter to Mr. Leedy, Chairman of the Conference,

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was drafted and placed in circulation to the members of the Board. In view of subsequent informal discussions, an alternative draft of letter also was prepared and copies thereof were distributed to the members of the Board prior to this meeting.

Following a statement by Governor Vardaman that he favored the alternative draft, which read as follows, it was approved unanimously:

On December 14, 1955, section 3 of the Rules and Regulations of the Retirement System of the Federal Reserve Banks was amended to provide for an increased retirement allowance for employees involuntarily separated from service after attainment of age 55 and completion of 25 years' service, for reasons other than dishonesty, misconduct, or insubordination.

Questions have arisen as to what would constitute dishonesty, misconduct, or insubordination within the meaning of this amendment and the Board would like to discuss the matter at the forthcoming meeting of the Presidents' Conference in Washington in May.

In the meantime, a copy of this letter is being sent to the President of each of the Federal Reserve Banks with the suggestion that should any case occur at his Bank which would raise a question whether the official or employee involved would be entitled to the increased allowance, a decision on that question be deferred pending the discussion at the time of the next Presidents' Conference.

A telegram was received yesterday from the Federal Reserve Bank of San Francisco stating that the Board of Directors had established rates of 3 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, 3-1/2 per cent on advances under section 10(b), and

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4 per cent on advances under the last paragraph of section 13, effective the first business day following approval by the Board of Governors. Advice had been received previously that the directors of the Atlanta, Philadelphia, and Boston Reserve Banks had established a discount rate of 2-3/4 per cent and appropriate other rates.

Chairman Martin said that his disposition would be to approve the rates which had been established by the four Reserve Banks and also to approve a rate of either 2-3/4 or 3 per cent for any of the other Reserve Banks which today advised the Board that their directors had acted to establish such a rate. This would indicate, he said, that the Board had accepted the recommendations of the directors of the respective Banks and, at the same time, that the Board was prepared to approve a rate of 3 per cent for any Bank whose directors might act to establish that rate.

Following a statement by the Secretary that all of the Reserve Banks had been notified of the rates established by the four Banks whose directors had acted thus far, the members of the Board expressed themselves as being in agreement with the procedure which Chairman Martin had suggested.

In a further discussion, Governor Mills inquired whether Chairman Martin intended to call President Sproul of the Federal Reserve Bank of New York on the telephone this morning. He said that there necessarily would be a churning and period of adjustment in the market and that if



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the System Open Market Account were to sell Treasury bills, there could arise a feeling that the System was acting aggressively on two fronts; that is, through a change in the discount rate and by withdrawing reserves from the market. He pointed out that the natural course of events would appear to bring about an easing of reserve positions in the near future and that there would be a question as to what extent that easing should be countered by sales of Treasury bills from the Open Market Account.

Chairman Martin responded that he intended to call Mr. Sproul and that he had talked to Mr. Sproul each day this week to keep him informed of developments. He did not know, however, how it would be possible to guide the Manager of the System Open Market Account differently from the instructions given to him at the last meeting of the Federal Open Market Committee unless another meeting of the Open Market Committee was called.

Governor Mills said that in view of the discount rate action, and pending adjustment to rate increases in the Government securities market, it would seem logical to him that at least as of tomorrow the Manager of the Account should suspend sales of Treasury bills. He commented that the weekly condition statement to be released today apparently would show a negative free reserve position for member banks of around \$400 million, compared with some \$450 million last week and about \$650 million two weeks ago. The market might read from these figures that the System had not acted to oppose the reduction to the current level. If simultaneously

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there were aggressive sales of Treasury bills by the Open Market Account, he felt there might be confusion in the market as to the System's intentions and an indication of increasing severity. The situation shortly would be solved by the fact that the reserve position of banks would ease automatically, and it seemed to him that the appropriate move would be to defer the sale of bills.

Mr. Thomas reported that net borrowed reserves of member banks were larger on Tuesday of this week than the New York Bank had predicted. Also, the Treasury balance increased substantially yesterday, and it now appeared that the weekly average of net borrowed reserves might be close to \$450 million or at least not as low as had been estimated earlier. The weekly statement, he said, would also show a decline in bill holdings of the Open Market Account.

Chairman Martin questioned whether any pressure should be exerted on the Manager of the System Open Market Account or an attempt made in any way to influence his judgment. He thought that within the framework of the instructions given to him the Manager should be prepared to do what he considered the proper thing.

Consideration then was given to the time when an announcement of the Board's approval of the increased rates at the various Reserve Banks should be made, and it was agreed unanimously that a press release should be issued at 4:00 p.m. covering the approval of rates at Banks which had advised of action in time to be included in that release. It was also

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understood that the Reserve Banks would be advised of the Board's action by telegrams sent to reach them shortly before the time the press release was issued.

Thereupon, upon motion by Governor Szymczak, it was voted unanimously (1) to approve, effective April 13, 1956, the rates established by the Federal Reserve Banks of Boston, Philadelphia, Atlanta, and San Francisco, and (2) to approve, effective April 13, 1956, for any other Federal Reserve Bank that informed the Board of the establishment of such rates today, a rate of either  $2\frac{3}{4}$  or 3 per cent on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act and other changes in the Bank's schedule of rates of discount and purchase which would be appropriately related to the new  $2\frac{3}{4}$  or 3 per cent rate.

To carry out the above action unanimous approval was given to telegrams reading as follows, with the understanding that similar telegrams would be sent to other Federal Reserve Banks which acted to make similar changes in their rates today, that the Board's press statement would be in the usual form, and that the usual notice would be sent to the Federal Register:

To Mr. Erickson, President, Federal Reserve Bank of Boston

Reurtel April 9. Board approves effective April 13, 1956, rates of  $2\frac{3}{4}$  per cent on discounts for and advances to member banks under Sections 13 and 13a,  $3\frac{1}{4}$  per cent on advances to member banks under Section 10(b), and  $3\frac{3}{4}$  per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

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To Mr. McCreedy, Vice President and Secretary, Federal Reserve Bank of Philadelphia

Reurtel April 5. Board approves effective April 13, 1956, rates of 2-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/4 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. Bryan, President, Federal Reserve Bank of Atlanta

Reurtel April 2. Board approves effective April 13, 1956, rates of 2-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/4 per cent on advances to member banks under Section 10(b), and 3-3/4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3 to 5-1/2 per cent on advances under Section 13b direct to industrial or commercial businesses, including advances made in participation with financing institutions. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. O'Kane, General Counsel, Federal Reserve Bank of San Francisco

Retel April 11. Board approves effective April 13, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.



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Secretary's Note: Pursuant to the Board's action, the following additional telegrams were sent today:

To Mr. Sproul, President, Federal Reserve Bank of New York

Reurtel today. Board approves effective April 13, 1956, rates of 2-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/4 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule.

To Mr. Fulton, President, Federal Reserve Bank of Cleveland

Reurtel April 12. Board approves effective April 13, 1956, rates of 2-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 3-1/4 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. Leach, President, Federal Reserve Bank of Richmond

Reurtel today. Board approves effective April 13, 1956, rates of 2-3/4 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/4 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. Johns, President, Federal Reserve Bank of St. Louis

Reurtel today. Board approves effective April 13, 1956, rates of 2-3/4 per cent on discounts for and advances to member

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banks under Sections 13 and 13a,  $3\frac{1}{4}$  per cent on advances to member banks under Section 10(b), and  $3\frac{1}{2}$  per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from  $2\frac{3}{4}$  to  $3\frac{1}{4}$  per cent on advances under Section 13b on portion for which financing institution is obligated. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. Strothman, Vice President, Federal Reserve Bank of Minneapolis

Reurtel today. Board approves effective April 13, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a,  $3\frac{1}{2}$  per cent on advances to member banks under Section 10(b), and  $4\frac{1}{4}$  per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. Hall, Chairman, Federal Reserve Bank of Kansas City

Reurtel today. Board approves effective April 13, 1956, rates of  $2\frac{3}{4}$  per cent on discounts for and advances to member banks under Sections 13 and 13a,  $3\frac{1}{4}$  per cent on advances to member banks under Section 10(b), and  $3\frac{3}{4}$  per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

To Mr. Irons, President, Federal Reserve Bank of Dallas

Reurtel today. Board approves effective April 13, 1956, rates of  $2\frac{3}{4}$  per cent on discounts for and advances to

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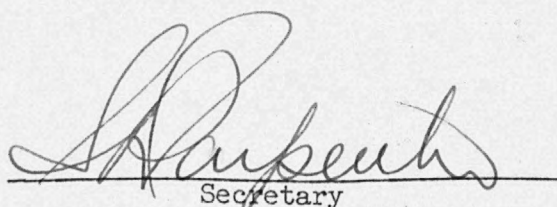
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member banks under Sections 13 and 13a, 3-1/4 per cent on advances to member banks under Section 10(b), and 3-3/4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

The Secretary reported that a letter had been received under date of April 11, 1956, from Mr. Jennings, Deputy Comptroller of the Currency, advising that a call for reports of condition would be made upon national banks as of the close of business on April 10, 1956. He said that, in accordance with the usual practice, a telegram then had been sent to the Presidents of all Federal Reserve Banks requesting that a similar call be made for condition reports from State member banks.

The sending of the telegram  
was ratified by unanimous vote.

The meeting then adjourned.



Secretary