Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on April 19, 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 15 Approval of discount rate of 2-3/4 per cent for the Federal Reserve Bank of Chicago.

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 WM

Gov. Szymczak MSS

Gov. Vardaman

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson CCS

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 19, 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. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Williams, Assistant Director, Division of Research and Statistics
Mr. Masters, Assistant Director, Division of Examinations
Mr. Benner, 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:

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

> In accordance with the request contained in your letter of April 10, 1956, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of New York:

William Jancovic
George F. McEvoy
Alan O'Sullivan
Anthony J. Segesti
Richard Vollkommer

The Board also approves the designation of Paul J. Denton and Thomas R. Heffernan as special assistant examiners for the Federal Reserve Bank of New York to participate in the examination of State member banks only.

Approved unanimously.

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

In accordance with the request contained in your letter of April 4, 1956, the authorizations heretofore given your bank to designate the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia are hereby cancelled:

Edward T. Sloan	Russell P. Sudders	Gustav A. Kress
Wm. O. Mackey, Jr.	Albert F. Preston	William Walder
Wilbur H. Reimer	Harry Donnelly	Charles V. Austin

The Board approves the designation of the following employees of your bank as special assistant examiners for the purpose of participating in the examination of State member banks, except the bank indicated immediately above their names:

The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania

John L. Ackroyd, Jr.
Charles V. Austin

Provident Trust Company of Philadelphia, Philadelphia, Pennsylvania

Charles V. Austin

Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania

Wilbur H. Reimer

Newtown Bank and Trust Company, Newtown, Pennsylvania

Wm. O. Mackey, Jr.

The Board also approves the designation of the following employees of your bank as special assistant examiners for the purpose of participating in the examinations of State member banks:

William Maguire, Jr.	Harry Donnelly
Edward T. Sloan	Gustav A. Kress
Russell P. Sudders	William Walder
Albert F. Preston	

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 April 3, 1956, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Chicago for the purpose of participating in the examination of State member banks in Detroit:

George H. DeRoo	Walter S. Beattie
Leslie B. Denesha	Lyle F. Nelson
Albin V. Jakubus	

Approved unanimously.

Letter to the Board of Directors, Union Trust Company of Springfield, Massachusetts, Springfield, Massachusetts, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch in a new shopping center to be known as "Springfield Plaza Shopping Center" between St. James Avenue and Liberty Street, Springfield, Massachusetts, by Union Trust Company of Springfield, Massachusetts, Springfield, Massachusetts, provided the branch is established within one year of the date of this letter.

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

Letter to the Board of Directors, The Second National Bank of Lexington, Lexington, Kentucky, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kentucky, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Second National Bank of Lexington is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, The Michigan Bank, Detroit, Michigan, approving the bank's application for membership in the Federal Reserve System and for stock in the Federal Reserve Bank of Chicago subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the following special condition:

3. None of the bank's stock shall be held or owned, directly or indirectly, by The Michigan Bank's proposed employees' profit sharing retirement trust if such trust is established.

The letter also contained the following paragraphs:

The Board of Governors also approves the retention and operation of the present branches of the bank, all within the city limits of Detroit, Michigan, at the following locations:

Corner Grand River and Livernois Avenues
Corner Gratiot and Harper Avenues

Corner Woodward Avenue and East Grand Boulevard
11120 Grand River Avenue
21426 West Grand Avenue

It is noted that in connection with the proposed removal of the main office to 500 Griswold Street, the bank has made commitments that the arrangement for disposing of the lease on the present banking quarters will be approved by the Michigan Banking Department and the Federal Deposit Insurance Corporation, and that the cost of improvements to be made in rehabilitating the new banking quarters will not exceed $100,000. In this connection, it is understood that the lease on the present main office quarters can be terminated without penalty to the bank and that the cost of improvements in the new banking quarters will be less than $100,000.

Following a discussion, during which it was suggested that this former industrial bank, with a heavy loan portfolio comprised almost entirely of installment paper, might have as a principal motive in applying for System membership a desire for access to the Reserve Bank discount window and that developments in this regard should be followed closely, the letter was approved unanimously, together with a letter of transmittal to the Federal Reserve Bank of Chicago containing the following paragraph:

With reference to the bank's request for permission to move its Grand River - Northlawn Branch from 11120 Grand River Avenue to 8333 Plymouth Road, Detroit, Michigan, it is noted that the proposed new location is approximately one city block southeast of the present location, and we concur in your view that the proposal constitutes a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served; and, therefore, the approval of the Board of Governors is not necessary.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

With your letter of March 27, 1956, you enclosed copies of correspondence between your Bank and The Casper National Bank, Casper, Wyoming, including a copy of the national bank's letter of March 17 requesting the Board's views on the question whether the use by the national bank of a life insurance plan for its savings depositors would involve a violation of the maximum interest provisions of Regulation Q.

From the information submitted, it is understood that the plan - which is offered to banks by a mutual life insurance company - contemplates that the company would insure the lives of the bank's savings depositors in amounts which would correspond in each case to the amount of the depositor's savings account, but which in no case would exceed $1,000 of insurance protection. It appears that the cost of the insurance on an annual basis would be 3/4 of 1 per cent of the total insurance coverage for depositors under 45 years of age, or 1-1/4 per cent of such coverage for other depositors, less any insurance dividends which probably would be at the rate of about 4/10 of 1 per cent for each $1,000 of insurance coverage. The net cost of the insurance as so calculated would be absorbed entirely by the bank using the plan, which apparently would serve as an inducement to attract additional savings deposits.

The Casper National Bank currently is paying on all savings deposits interest at the rate of 2-1/2 per cent per annum. This is the maximum permitted by the regulation. Therefore, the question is whether absorption of the cost of the insurance as described above would constitute indirect payments of interest, with the result that the bank would be paying on deposits subject to the plan total interest in excess of the maximum permissible rate.

As you know, it has been the Board's general policy for many years not to attempt to make detailed interpretations with respect to whether particular practices constitute indirect payments of interest on deposits unless the facts have been fully developed in the course of an examination of the member bank involved, but rather to rely upon the cooperation and good faith of member banks in adapting their practices to conform to the spirit and purpose of the law and regulation. As indicated in the Board's letter to all Reserve Banks of September 23, 1955, S-1577 (FRLS #6230.1), the Board believes that this general policy affords the most practicable means of dealing with questions of this kind, except as to questions involving obvious or flagrant cases or proposals.

In the present case the Board is of the opinion that, on the basis of its understanding of the situation presented, it is clear that the national bank's absorption of the cost of the insurance under the plan would constitute an indirect payment of interest on savings deposits within the meaning of section 3(a) of the regulation. Consequently, use of the plan by the bank would result in the payment by it of interest in excess of the maximum rate permissible under the regulation and, therefore, would be prohibited by section 3(a) of the regulation.

It is noted that the foregoing conforms with the advice which you gave to The Casper National Bank in your letter of March 5, a copy of which was also included among the enclosures with your letter.

Approved unanimously, with the understanding that copies of the letter, edited in the usual manner, would be sent to all of the Federal Reserve Banks as a matter of information.

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

Reference is made to your letter of April 6, 1956, and enclosures concerning the proposed withdrawal from membership in the Federal Reserve System of the Farmers State Bank of Madisonville, Texas, Madisonville, Texas.

As requested, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Farmers State Bank, you are authorized to cancel such stock and make appropriate refund thereof. Under the provisions of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

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 February 28, 1956, enclosing photostatic copies of an application to organize a national bank at Martin, Kentucky, 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 Cleveland indicates that the proposed capital structure of the bank would be adequate, the prospects for earnings of the institution do not appear favorable, and the proposed management is not regarded as satisfactory. It is not apparent from the information available that an additional bank is needed in the area. In view of these unfavorable factors, 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.

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

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

This refers to your letter of April 5, 1956 requesting the views of the Board on a report which the Securities and Exchange Commission proposes to make on S. 2054, a bill "To amend the Securities Exchange Act of 1934, as amended."

S. 2054 would adopt specified requirements from the Securities Exchange Act of 1934 and apply them to certain large, widely held corporations. The requirements cover (1) publication of financial reports and related information (2) proxy solicitations and (3) so-called "insiders' profits" resulting from short-swing (6 months) trading in the company's stock. Under section 3 of the bill securities covered by S. 2054 would be treated the same for the purpose of the margin requirements as securities registered on an exchange. In other words, securities covered by the bill would be entitled to loan value in brokerage accounts just as registered securities are, and loans by banks to purchase or carry securities so covered would be subject to the usual margin requirements.

The Board has stated that it is in complete agreement with the purposes of S. 2054, that section 3 of the bill would help to carry out the general purposes of the present provisions of law relating to margin requirements, and that the enactment of such a provision would be in the public interest.

The proposed report of the Securities and Exchange Commission discusses S. 2054 generally and states that "the Commission unanimously renews the position which it took on June 27, 1955, that the principles and objectives of the bill are sound and the Commission supports them." The Commission suggests two changes in the bill, but these would not directly affect the margin provisions of section 3 of the bill, and the Board has no comments on the Commission's proposed report.

Following comments by Mr. Solomon, the letter was approved unanimously.

In a discussion at the meeting on April 10, 1956, regarding arrangements for carrying out the study of consumer credit requested by the

President, reference was made to the fact that the staff had been exploring with certain leading survey organizations the possibility of making arrangements for a special national survey of new car buyers. Subsequently, there were sent to the members of the Board copies of a memorandum from Mr. Young dated April 18, 1956, recommending that an arrangement be entered into with National Analysts, Inc., of Philadelphia, Pennsylvania, to undertake such a survey. This would involve a double sampling technique based on lenders' records and interviews with a representative sample of buyers. From a sample of 12,800 new car buyers drawn from registration lists maintained by R. L. Polk Co., the lenders would be identified through the records of State motor vehicle departments and contact with them would be made for National Analysts by the Retail Credit Company, a national firm engaged in the personal credit investigation business. Interviews with a subsample of 4,800 car buyers would be conducted by National Analysts. The cost of the proposal, including an allowance for summary analysis of the results, was estimated at about $230,000, and to provide for contingencies, the memorandum recommended a budget authorization of $250,000. In addition, since it appeared that the Board's staff might need temporary consulting assistance in analyzing the survey, it was recommended that the Board authorize disbursements for consulting fees and consultants' travel out of the contingency allowance.

At the request of the Board, Mr. Young discussed the proposal in more detail and stated why it was believed preferable to use National Analysts for this survey rather than the Survey Research Center of the University of Michigan. He also said that National Analysts had now made a firm estimate of $232,500 for the survey.

During the course of Mr. Young's comments, Governor Vardaman joined the meeting.

Governor Mills said he concurred in the recommendation that an arrangement be made with National Analysts. He brought out that it was planned to include the results of the survey as an appendix to the Board's consumer credit study. There was a question, he said, whether the findings of the consultant proposed to be retained by National Analysts (Mr. Reavis Cox) should be incorporated in the appendix without further review or whether the Board itself should assume responsibility for analysis of the survey results against the statistical data obtained. He requested that Mr. Young comment on this point.

Mr. Young then stated reasons for and against each of these alternatives and suggested a third alternative whereby the Board's staff would work with Mr. Cox in the preparation of the analysis. This procedure envisaged incorporating in the appendix a statement to the effect that an independent consultant had reviewed the analysis and agreed that it was a proper interpretation of the information obtained through the survey.

Following a further discussion, agreement was expressed that the compromise approach suggested by Mr. Young would be appropriate.

Messrs. Young, Noyes, and Williams then discussed questions which were raised regarding the scope of the proposed survey and the value of the information that would be obtained. Their comments emphasized the significance of data pertaining to the 1954-1955 period, which was marked by a substantial relaxation in the terms of credit extended.

Governor Vardaman expressed the opinion that a national survey of the kind proposed represented the right approach to this phase of the consumer credit study. He anticipated that the results would be of much interest.

> At the conclusion of the discussion, the recommendations contained in Mr. Young's memorandum were approved unanimously, with the understanding that the cost of the survey by National Analysts would be $232,500, that the total budget authorization for the survey undertaking would be $250,000, and that the staff might make disbursements under the total budget authorization for such items as consultants' fees and travel expenses if it should become necessary to incur such expenses.

Reference then was made to the discussion at the meeting on April 10, 1956, concerning the possibility of securing in a consultant capacity a person of established reputation in the consumer credit area who would act as liaison with the industry in receiving the comments of the trade pertinent to the Board's consumer credit study.

Mr. Young said that further consideration had been given to the selection of a person who would be appropriate in this capacity and that the staff wished to suggest the name of Mr. Elmer Schmus, Vice President and Cashier of The First National Bank of Chicago, Chicago, Illinois.

Following a statement concerning the background of Mr. Schmus in this field and a statement by Governor Mills that he was in accord with Mr. Young's suggestion, it was agreed unanimously that steps should be taken looking toward the retention of Mr. Schmus as a consultant on a temporary contractual basis to undertake the assignment mentioned.

Messrs. Riefler, Vest, Young, Solomon, Noyes, and Williams then withdrew from the meeting.

As stated at the meeting on April 16, 1956, there had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated February 21, 1956, reflecting the status of "problem" State member banks as of December 31, 1955.

At the request of the Board, Mr. Benner reviewed the definition of a problem bank, the rating system for State member banks, and the supervisory procedures used by the Division of Examinations and by the Federal Reserve Banks in ascertaining and following problem bank cases and endeavoring to effect correction of the matters criticized.

Mr. Masters summarized the trend of problem bank cases, the situation at the present time, and the reasons which caused the existing problem banks to be so rated.

Following a discussion of the over-all situation and certain specific cases, during which Governor Mills withdrew from the meeting to keep another engagement, Governor Vardaman expressed the opinion that the Division of Examinations was to be complimented on the improvements achieved in its procedures during recent years. He suggested that in view of the information contained in the memorandum on problem banks which had been distributed it might be well in the future to type only a limited number of copies, circulate one to the members of the Board, and, after discussion at a meeting, return the copy to the Division of Examinations.

In view of Governor Vardaman's comment, it was understood that all copies of the memorandum of February 21 which had been distributed would be returned to the Division of Examinations.

Mr. Masters made a report on preliminary findings of the current examination of The Continental Bank and Trust Company, Salt Lake City, Utah, which were reported to the Division of Examinations by the examiner for the Federal Reserve Bank of San Francisco in charge of the examination when he was in Washington last week to attend the Conference of Representatives of Bank Examination Departments of the Federal Reserve Banks.

It appeared from these preliminary findings that the member bank's condition was no better in any significant respect than at the time of the previous examination in 1955 and that the situation had become worse in some ways.

It was understood that the Board of Directors of the Federal Reserve Bank of Chicago was to meet today and that advice might be received that the directors had acted to establish a higher discount rate, subject to review and determination by the Board of Governors.

Accordingly, it was agreed unanimously that if advice should be received later in the day that the Chicago Bank's directors had established a rate of either 2-3/4 or 3 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act and appropriate other changes in the Bank's schedule of discount and purchase, the Bank should be advised that the Board approved such rates, effective April 20, 1956; a press release should be issued by the Board in the usual form; all Federal Reserve Banks and branches should be notified by telegram; and the usual notice should be sent to the Federal Register.

Secretary's Note: Pursuant to this action, the following telegram was sent today to Mr. Dawes, Vice President and Secretary of the Federal Reserve Bank of Chicago:

Reurtel today. Board approves effective April 20, 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 rates on industrial loans under Section 13b to range of 3 per cent to 5-1/2 per cent. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EST today for immediate release.

The meeting then adjourned.

S. R. Carpenter

Secretary