

Minutes for April 30, 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	<input checked="" type="checkbox"/> <u>[Signature]</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> <u>[Signature]</u>	_____
Gov. Vardaman	<input checked="" type="checkbox"/> <u>[Signature]</u>	_____
Gov. Mills	<input checked="" type="checkbox"/> <u>[Signature]</u>	_____
Gov. Robertson	<input checked="" type="checkbox"/> <u>R</u>	_____
Gov. Balderston	<input checked="" type="checkbox"/> <u>CCB</u>	_____
Gov. Shepardson	<input checked="" type="checkbox"/> <u>[Signature]</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 30, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson
 Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Messrs. Young, Noyes, Garfield, and
 Williams, Miss Burr, Messrs. Dembitz,
 Brill, Eckert, Jones, Miller, Weiner,
 Allen, Trueblood, Wernick, and Wood,
 and Miss Stockwell of the Division of
 Research and Statistics

The representatives of the Research Division presented a review of business and financial developments, following which all of the members of the Division staff except Mr. Young withdrew from the meeting and Messrs. Leonard, Director, Division of Bank Operations, Vest, General Counsel, Horbett, Associate Director, Division of Bank Operations, and Solomon and Shay, Assistant General Counsel, entered the room.

There had been sent to the members of the Board copies of a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, prepared in response to the Bureau's request for

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comments on enrolled bill H. R. 6227, the Bank Holding Company Act of 1956. The proposed reply read as follows:

This is in response to your communication of April 27, 1956, requesting comments on an enrolled bill H. R. 6227 "To define bank holding companies, control their future expansion, and require divestment of their non-banking interests."

The Board several times in the past has had occasion to comment on proposed bank holding company legislation and has always endorsed such legislation in principle. It is recommended that the President approve the bill.

Governor Vardaman raised for consideration the question whether it would be advisable to express any reservations with respect to the enrolled bill, since it differed in certain respects from bank holding company legislation which had been recommended by the Board in the past.

Statements made by other members of the Board were to the effect that inasmuch as the Board's views on bank holding company legislation had been expressed to the Congress on various occasions, it would seem unnecessary to do more at this time than make a general statement of the kind contained in the draft of letter. Governor Robertson commented that the Act contemplated a report by the Board at the end of two years. In the meantime, he said, the Board could develop facts on which to base any recommendations that it might wish to make for improvement of the legislation.

Thereupon, the letter to Mr. Jones was approved unanimously in the form set forth above.

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Chairman Martin reported having received a telephone call last Friday, April 27, from Senator Ervin of North Carolina, who presented a problem growing out of the fact that North Carolina law requires the rate of interest payable by banks on time deposits of State funds to be not less than the current rate on United States Treasury bills, which at present exceeds the maximum permissible rate on time deposits prescribed by Regulation Q, Payment of Interest on Deposits, and the comparable regulations of the Federal Deposit Insurance Corporation. He then called upon Mr. Vest for a further statement on the matter.

Mr. Vest said that at the Chairman's request he and Mr. Leonard talked by telephone with the Treasurer of North Carolina and another State official who discussed the pertinent provisions of the State law. While it appeared to Mr. Vest that there might be some room for difference of opinion regarding the interpretation of the law, the North Carolina officials reported the State's Attorney General as having taken the position that the law would not permit the redeposit of State funds in insured banks upon the maturing of outstanding certificates of deposit unless the new certificates would provide for payment of interest at a rate at least equal to the yield obtainable from the purchase of Treasury bills. The Attorney General's position, he said, was confirmed by the State Treasurer in another telephone conversation earlier this morning. It appeared that there were now about \$91 million of State funds held at approximately

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140 banks and that the certificates of deposit mature at the rate of about \$15 million each month. The State legislature was not scheduled to meet until next January, although there was a possibility that a special session might be held in July of this year. While the State officials thought that the Attorney General might give them a reasonable time to work out a solution, they doubted that he would be willing to permit the redeposit of funds in the banks to continue until July. Concern was not expressed from the point of view of obtaining income on the funds because the State could invest the funds in Treasury bills. Instead, it was a question of the effect of removing the funds from the banks concerned. The request made of the Board was that it consider granting a specific exception to the maximum rate provisions of Regulation Q which would allow the banks to pay interest on the State funds at a rate in excess of the prescribed maximum rate on time deposits.

In supplementing Mr. Vest's comments, Mr. Leonard said that the State officials emphasized the need of North Carolina banks for funds at this time of the year because of the heavy seasonal demand for agricultural credit.

As to the alternatives available to the Board, Mr. Vest said that one possible course would be to take no action and let the State of North Carolina work out its own problem in some way. On the other hand, the Board could consider the feasibility of an exception of the kind requested or it could amend Regulation Q to increase the maximum rate of interest payable on time and savings deposits.

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In response to a question from Chairman Martin, Mr. Vest said that the Board had never made an exception of the kind requested. For about two years in the 1930's, he recalled, there was an exception in the law pertaining to State funds, but this provision expired.

A discussion followed concerning the provisions of the Federal statutes with respect to payment of interest on deposits and the reasons for prescribing the current maximum rate of interest on time and savings deposits. It was pointed out that the maximum rate of 2-1/2 per cent had not been changed since 1936, at which time the structure of interest rates was much lower than at present and banks were not anxious to obtain deposits. Reference also was made to occasions on which the Board had considered changing the maximum rate of interest, including discussions in 1953 which resulted in a decision against making any change.

Mr. Vest said that if the Board should wish to consider increasing the maximum rate, he did not think that under the Administrative Procedure Act it would be necessary to publish the proposed change in the Federal Register to obtain views and comments. However, since the matter was one on which there might be considerable difference of opinion, he felt that there was something to be said for publishing such a proposal.

Chairman Martin said that he had given the matter some thought since receiving Senator Ervin's call. It seemed to him quite clear that the Board had a responsibility to again review the maximum rate because

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of changed conditions in recent months. He thought it might be advisable as a first step to ask the Federal Reserve Bank of Richmond to explore the North Carolina matter and see how serious the problem was. Then, he said, the Board could consider the subject from the standpoint of its responsibility for setting an appropriate maximum rate of interest on time and savings deposits. A maximum rate of 2-1/2 per cent meant very little when the rate of interest actually paid by most banks was substantially lower, but now it seemed possible that for a long period the structure of interest rates would be relatively higher. He added that if the Board raised the maximum rate, the charge might be made that the action tended to force up the rate of interest on deposits. However, that would seem to be inherent in the Board's responsibility for setting the maximum rate.

In further discussion, Governor Robertson suggested that the views of the Treasury be sought because of that Department's interest in keeping the rate of interest on United States savings bonds competitive. Governor Szymczak suggested that the topic be placed on the agenda for discussion at the next meeting of the Presidents' Conference.

Governor Mills brought out that operators in the money market were looking for any "straws in the wind" which might give them a clue to System policy intentions. If the maximum rate on savings deposits were increased, there might be those who would regard the action as an

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indication of the System's judgment that the interest rate structure would be higher over a sufficiently long period of time to justify paying the new maximum rate on savings deposits, with the interest liability covered by assets of the quality of United States Government obligations.

Chairman Martin inquired whether the Board should consider the possibility of a specific exception of the kind requested by the North Carolina officials. In a discussion of this possibility, the view was expressed by other members of the Board that even if such an exception were found to be legally permissible, the action might have the effect of encouraging other requests for exceptions.

The following procedural suggestions then were made: The Federal Reserve Bank of Richmond would be alerted to the conversations with Senator Ervin and the North Carolina State officials and would be asked to give the Board the benefit of the Bank's views after it had explored the situation. A telegram would be sent to the Chairman of the President's Conference, with copies to all of the Reserve Bank Presidents, requesting that the Presidents discuss the subject of the maximum interest rates payable on savings and other time deposits at next week's meeting of the Conference and give the Board an expression of the reasons for and against increases in those rates. Governor Robertson would discuss this subject with the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the representative of the State bank supervisors on the Inter-Agency

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Committee on Bank Supervisory Matters, and Chairman Martin would initiate a discussion of the matter with the Treasury. Mr. Vest would call Senator Ervin's office, state that the Board was actively studying the matter to which he had referred, and also state that the Board would be in touch with him at the earliest possible time.

These suggestions were approved unanimously.

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:

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

Your wire April 20. Board approves granting of loan or loans by your Bank to Banco Central del Ecuador not to exceed \$3 million on the following terms and conditions:

- A. Such loan or loans to be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;
- B. Such loan or loans to mature in three months with option to repay before maturity; and the officers of your Bank to be authorized to grant one renewal but without informing the borrower at this time of such possibility;
- C. Any such loan or loans to be requested and made on or before May 15, 1956;
- D. Each such loan to bear interest at the discount rate of your Bank in effect on the date on which such loan is made;

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- E. The amount advanced and the principal amount repaid at any one time to be in multiples of \$1 million.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

Approved unanimously.

Letter to the Board of Directors, The Community Bank, Napoleon, Ohio, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 409-413 South Perry Street, Napoleon, Ohio, provided the branch is established within one year of the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

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

Letter to the Board of Directors, The Merchants National Bank of Topeka, Topeka, Kansas, 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 Kansas, 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 Merchants National Bank of Topeka is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through the Federal

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Reserve Bank of Kansas City, together with the following letter to Mr. Leedy, President of the Reserve Bank:

In connection with the application of The Merchants National Bank of Topeka, Topeka, Kansas for permission to exercise fiduciary powers, the question was raised whether Mr. W. L. Dean might lawfully continue to serve as president of the bank and as president and director of the Columbian Title & Trust Company in view of section 8 of the Clayton Act.

Section 8 of the Clayton Act makes it unlawful for a director or officer of a member bank to serve as a director or officer of a trust company, with certain exceptions. One of the exceptions permits such an interlocking relationship if the trust company is not engaged in a class or classes of business in which the member bank is engaged.

Your letter of March 23, 1956 quotes Mr. Dean as saying:

"Upon the granting of trust powers to this bank the Columbian Title & Trust Co. will take no more trusts of any nature, and as it can be arranged to the satisfaction of trust beneficiaries those trusts now administered by the Columbian Title & Trust Co. will be transferred to the Trust Department of The Merchants National Bank."

Mr. Woolley's letter of April 19 encloses Mr. Dean's letter of April 18, 1956 which states:

"Referring again to the application of this Bank for permission to exercise trust powers, I am authorized to assure you that following the granting of trust powers to this Bank, the Columbian Title and Trust Company will not rent any more safe deposit boxes."

In view of the fact that the trust company will accept no more trusts and will transfer those now administered by it to the national bank, the Board is of the opinion that the trust company should be regarded as "not engaged" in that class of business. This position is consistent with that taken by the

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Board in its letter to you of October 5, 1949 in connection with Mr. Bartlett Boder.

Similarly, since the trust company will not rent any more safe deposit boxes, it should also be regarded as not engaged in that class of business.

Consequently, on the basis of Mr. Dean's statements, the Board is of the opinion that his service in the capacities named in the first paragraph of this letter will not be in violation of section 8 of the Clayton Act.

Letter for the signature of Chairman Martin to Mr. Harold W. Dodds, President, Princeton University, Princeton, New Jersey, reading as follows:

Thank you for your letter of March 27, 1956, concerning the Rockefeller Public Service Awards program.

In accordance with your request, I have designated Mr. Winfield W. Riefler to serve as point of contact on behalf of the Board of Governors with the staff of the Committee on Selection for these awards.

The Board of Governors is pleased to take part in the Rockefeller Public Service Awards program again this year. You may be assured of our continued cooperative support of this worthwhile program.

Approved unanimously.

The following items had been circulated to the members of the Board and were presented for consideration:

Memorandum from Mr. Leonard dated April 18, 1956, concerning the procedure for obtaining security clearance for Federal Reserve Bank personnel which was approved by the Board on March 28, 1956. The memorandum reported that assurances had now been received from the Civil Service Commission that it would make the required full field investigations of Reserve Bank personnel upon request of the Board based upon the responsibilities delegated by Defense Mobilization Order I-20. The

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memorandum also submitted a draft of letter to the Presidents of the Federal Reserve Banks which would advise them of the security clearance procedure and request them to submit names of persons for whom they wished to have security clearance arranged.

Memorandum from Mr. Shay dated April 18, 1956, proposing an amendment to the Board's Regulations Relating to the Safeguarding of Defense Information which would authorize access to classified defense information on the part of Reserve Bank personnel who had been granted security clearance, provided the Reserve Bank concerned maintained effective safeguards for the protection of such information.

Following a discussion, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks reading as follows:

The responsibilities imposed by Defense Mobilization Order I-20 will require selected Federal Reserve Bank personnel to have access from time to time to classified defense information. Also, the Office of Defense Mobilization requires security clearance of individuals participating in its Regional Defense Mobilization Committee program.

In the light of discussions Governor Robertson had with members of the Presidents' Conference Special Committee on Emergency Operations and later discussions with ODM and the Civil Service Commission, the Board has arranged for the necessary security clearance of Reserve Bank personnel in much the same manner that Board personnel are cleared, except that the former would be cleared as employees of Federal Reserve Banks working on defense planning under Defense Mobilization Order I-20. The Civil Service Commission, which makes the field investigations required for security clearance by the Board and most other Government agencies, will treat these cases in the same manner as other non-Government employees. Security clearance for the purposes of DMO I-20 would serve also as security clearance under the RDMC program.

Briefly, the procedure contemplates the following steps:

1. The Presidents of the Reserve Banks will be asked to send in the names and positions of those who they believe should have security clearance. The Board requests that, before any

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name is sent in, the individual be informed of the proposal that his name be submitted for security clearance.

2. The proposals will be reviewed at the Board as to number and type of positions in order that there may be reasonable consistency throughout the System as to the extent of personnel security clearance.

3. The names will then be submitted to the Civil Service Commission with a request for the customary field investigation made in connection with security clearance.

4. For individuals on whom no derogatory information is developed, the usual procedure of clearance by the Board's Personnel Security Officer will be followed.

5. If in any case the report of investigation contains information of a derogatory nature:

a. The matter will be discussed with the President of the Federal Reserve Bank concerned, or an officer of the Bank designated by him, and the President will be asked for a recommendation as to clearance in the circumstances.

b. After the President's recommendation is received, the case will be submitted to the Board for determination as to whether the individual should be cleared.

Because the investigations are time consuming and there is a backlog of requests, it may take from two to three months to obtain a report of investigation.

The Civil Service Commission bills the agency requesting the investigation for the cost of the investigation. At the present time this is approximately \$250 per investigation, and the Board will bear these costs.

Section 7 of the Board's Regulations Relating to the Safeguarding of Defense Information, a copy of which, together with a copy of the Executive Order #10501, is attached, relates to the dissemination of classified information to "authorized persons." That section of the regulation has been amended to add

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to the definition of "authorized persons" an officer or employee of a Federal Reserve Bank who has been granted an appropriate security clearance for access to classified defense information, provided the Reserve Bank maintains suitable safeguards for the protection of such information.

The Board suggests that, in submitting requests for personnel security clearances, the Reserve Banks endeavor on the one hand to provide an adequate number, including secretaries and clerks, whose duties will require knowledge or possession of classified defense information, but on the other hand to keep the number as low as practicable. It is not anticipated that the amount of classified defense information received by any Reserve Bank in connection with DMO I-20 or the RDMC program will be so great as to present a problem from the standpoint of volume. Furthermore, the mere fact that certain persons may be called upon to do work related to classified defense matters would not, of itself, require that they have a security clearance, if the classified information or material involved is not made available to them, and if this work is of such a nature that it can be done effectively without knowledge of the information making the classification necessary. In each case, of course, this would require the exercise of sound judgment on the part of the person cleared for access to classified defense information who would be supervising the work.

The approach suggested in the foregoing paragraph to limit the number of clearances requested has been discussed with the security officer of ODM who concurred in the position and advised that he could be quoted to that effect.

In the future, additional or substitute names should be submitted as the occasion arises.

Please forward as soon as practicable a list of names of those for whom you wish to have security clearance.

Enclosed for your information is a copy of the questionnaire and finger-print card needed in such cases. Upon receipt of the list of names, an appropriate supply of the forms, together with a memorandum as to their use, will be forwarded by the Board's Personnel Security Officer to the officer in charge of personnel at your Bank.

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Unanimous approval also was given to amendment of subsection (d) of section 7 of the Board's Regulations Relating to the Safeguarding of Defense Information as follows, effective immediately:

- (1) Delete the word "or" at the end of paragraph (ii) of said subsection (d);
- (2) Substitute "; or" for the period at the end of paragraph (iii) of said subsection (d); and
- (3) Add to said subsection (d) the following new paragraph (iv):

"(iv) an officer or employee of a Federal Reserve Bank who has been granted an appropriate personnel security clearance for access to classified defense information by the Board or by another agency, establishment, or department of the Federal Government, provided that the Federal Reserve Bank maintains in effect a plan for safeguarding classified defense information at least equivalent to that prescribed by Executive Order 10501 and these regulations."

Mr. Shay then withdrew from the meeting.

The following draft of letter for the signature of Chairman Martin to Mr. Frederic A. Potts, President of the Philadelphia National Bank, Philadelphia, Pennsylvania, had been circulated to the members of the Board and was presented for consideration:

Your letter of April 5, 1956, as to the action regarding the report of the Joint Committee on the Check Collection System taken at the recent meeting of the Association of Reserve City Bankers, has been read by members of the Board, and copies are being sent to the presidents of the Federal Reserve Banks.

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As the Joint Committee which prepared the report was appointed under the auspices of the Association of Reserve City Bankers, the American Bankers Association, and the Federal Reserve Banks, we had hoped that its findings would be accepted by the banking system as a basis for reducing the cost and increasing the efficiency of check collections. Naturally we are disappointed that the report was not received favorably by the Association of Reserve City Bankers.

The status of the report is on the agenda for discussion at the meeting of the Conference of Presidents of the Federal Reserve Banks next month. We will follow your suggestion and communicate with Mr. James D. Robinson, Jr., as your successor in the Presidency of the Association of Reserve City Bankers, as to any developments regarding the report which we believe might be helpful to the Association in its further considerations.

We appreciate your own interest in the problem and the support you have given the project.

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

There had been sent to the members of the Board copies of a memorandum dated April 20, 1956, from Messrs. Solomon, Assistant General Counsel, Koch, Assistant Director, Division of Research and Statistics, and Griffin, Supervisory Review Examiner, Division of Examinations, submitting a memorandum entitled "Appraising Adequacy of Bank Capital" and a form entitled "Form for Analyzing Bank Capital". These documents reflected the results of a study of bank capital which had been made at the request of the Board. In June 1953 preliminary versions were sent to

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the Federal Reserve Banks for comment and a number of suggestions were received. Since that time, experience had been gained in using the analysis form and further attention had been given to the problem of bank capital. As a result, certain modifications in the form and the memorandum had been made and it was believed that the work of the committee had now reached a reasonable termination point. The principles developed in the analysis form and memorandum had been discussed at conferences of the representatives of bank examination departments of the Federal Reserve Banks but the revised form and memorandum had not been officially transmitted to the Federal Reserve Banks.

Following a statement by Governor Mills, in which other members of the Board concurred, concerning the quality of the committee's study and its potential usefulness to the Federal Reserve Banks and the Board's Division of Examinations, the question was raised as to whether the revised analysis form and memorandum should be transmitted officially to the Federal Reserve Banks and perhaps distributed to other bank supervisory authorities.

Governor Robertson expressed the view that no formal distribution should be made at this time. He pointed out that the form and memorandum had been discussed with the Reserve Bank Vice Presidents in charge of the examining function and that copies also had been made available informally to the Office of the Comptroller of the Currency and the Federal Deposit

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Insurance Corporation. He felt that if the Board refrained from any procedure which might seem to dictate adoption of the analysis form by the Reserve Banks, the form might eventually come into general use by the Banks as a guide. On the other hand, any action which could be interpreted as an effort to prescribe the use of the form might create a less favorable response.

There was agreement with
the point of view expressed by
Governor Robertson.

Chairman Martin noted that pursuant to the understanding at the meeting on April 26, 1956, there had been sent to the members of the Board copies of a memorandum prepared by Mr. Thomas concerning the study of member bank reserve requirements made by the Economic Policy Commission of the American Bankers Association. This memorandum incorporated reference to certain administrative problems in connection with the proposed program of reserve requirements which were referred to by Mr. Horbett at the meeting on April 26.

No questions were raised with regard to Mr. Thomas's memorandum, and agreement was expressed with a statement by Chairman Martin that at the meeting with the Economic Policy Commission tomorrow the Board would listen to the Commission's proposal but would take no position in connection therewith.

The meeting then adjourned.

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Secretary's Note: During the day Governor Balderston approved the following personnel items on behalf of the Board:

Memorandum dated April 19, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Charlotte T. Breckenridge, Research Assistant in that Division, be accepted effective May 4, 1956.

Memorandum dated April 20, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Marjorie Capps, Clerk-Stenographer in that Division, be accepted effective April 19, 1956.

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

In accordance with the requests contained in your letters of April 25, 1956, the Board approves the appointments of Jerry Chauncy Bradshaw and Robert Leo Darrow, as assistant examiners for the Federal Reserve Bank of Chicago. Please advise as to the dates upon which the appointments are made effective.


Secretary