

Minutes for May 3, 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	x <u>MM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman	x <u>SV</u>	_____
Gov. Mills	x <u>SM</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	_____	x <u>SS</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 3, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of
 Research and Statistics
 Mr. Boothe, Administrator, Office of
 Defense Loans
 Mr. Hackley, Assistant General Counsel
 Mr. Noyes, Adviser, 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:

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

Reference is made to your letter of April 23, 1956, regarding the request of The State Trust Company, Plainfield, New Jersey, for an extension of time within which it may establish a branch at 1115-1125 South Avenue, Plainfield, New Jersey. It is noted that the condition requiring an increase in the trust company's capital stock has been fulfilled and that a contract has been signed for the construction of the branch building, which will probably not be ready for occupancy before August 1956.

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After consideration of the information submitted, the Board concurs in your recommendation and extends to September 27, 1956, the time within which The State Trust Company may establish the branch, as originally approved on May 27, 1955.

Approved unanimously.

Letter to the Board of Directors, Barclay-Westmoreland Trust Company, Greensburg, Pennsylvania, 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 400-406 South Main Street, Greensburg, Pennsylvania, by the Barclay-Westmoreland Trust Company, Greensburg, Pennsylvania, 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 Mr. Fred Erisman, Longview, Texas, reading as follows:

This refers to your letter of April 6, 1956, addressed to the Chairman of the Federal Reserve Board, requesting advice as to whether an application was made by the Tyler Bank and Trust Company, Tyler, Texas, for written consent to operate a branch, and whether such consent was granted. The answer to your question requires the following explanation.

During the latter part of 1955 the Board of Governors learned that this member bank contemplated constructing drive-in banking facilities. As a member of the Federal Reserve System the bank is subject to the provisions of sections 36 and 321 of Title 12 of the United States Code, which require the approval of the Board of Governors before such bank may establish a branch. These statutes provide

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that the term "branch," as used therein, "shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business *** at which deposits are received, or checks paid, or money lent." (The requirement for approval by the Federal Deposit Insurance Corporation, to which you refer, applies only to insured banks which are not members of the Federal Reserve System.)

The Board of Governors has taken the position that the operation of facilities of the type described, under the circumstances of this case, constitutes the operation of a branch within the purview of the above-cited Federal statutes. Therefore, Tyler Bank and Trust Company was advised by the Federal Reserve Bank of Dallas that, under Federal law, the Board's prior approval for the operation of such a facility would be required.

Subsequently, Tyler Bank and Trust Company made application to the Board of Governors to operate a facility at 118 West Locust Street, Tyler, Texas, and the Board of Governors on December 5, 1955, approved the establishment of a branch by the bank at that location.

Needless to say, in matters of this nature the Board of Governors expresses no opinion as to what constitutes a branch within the purview of State law.

Copies of this letter are being sent to the Tyler Bank and Trust Company and to the Banking Commissioner of Texas for their information.

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

Letter to Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

Reference is made to your letter of April 19, 1956, submitting the request of the Montana Bank, Great Falls, Montana, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an investment in bank premises in excess of the capital stock of the bank.

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After considering all available information, the Board of Governors concurs in the Reserve Bank's recommendation and approves an additional investment in bank premises by Montana Bank of not to exceed \$561,000 for the purpose of erecting a new building. This proposed investment is exclusive of the bank's present investment in real estate on which the premises are to be erected.

It is presumed that the member bank will reduce this investment on a planned and regular basis.

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 March 13, 1956, enclosing photostatic copies of an application to organize a national bank at Charleston, West Virginia, 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 a representative of the Federal Reserve Bank of Richmond discloses generally favorable findings with respect to the factors usually considered in connection with such proposals. Accordingly, the Board of Governors recommends approval of the application. It is noted that Mr. Shonk, proposed president and director of the bank, is now serving as a director of an existing bank in Charleston. His services with both banks would not be permitted under the provisions of Section 8 of the Clayton Act and the Board's Regulation L.

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.

Reference is made to a letter from your office dated February 24, 1956, enclosing photostatic copies of an application to organize a national bank at Port Arthur, Texas, and

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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 indicates generally favorable findings with respect to the factors usually considered in connection with such proposals. Accordingly, 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.

Reference is made to a letter from your office dated March 22, 1956, enclosing photostatic copies of an application to organize a national bank at Hoyt Lakes, Minnesota, 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 a representative of the Federal Reserve Bank of Minneapolis discloses generally satisfactory findings with respect to the factors usually considered in connection with such proposals, except as to the adequacy of the proposed capital structure. Our informant is of the opinion a capital structure of not less than \$200,000 would be desirable. The Board of Governors recommends approval of the application provided arrangements are made for a capital structure satisfactory to your office. It should be understood that this recommendation will in no way preclude the Board from taking any position which it feels would be appropriate if it should be called upon to act in any matter involving this bank under the Bank Holding Company Act of 1956 after it has become law.

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 Banks of Richmond, Dallas, and Minneapolis, respectively.

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There had been sent to the members of the Board copies of a memorandum dated May 1, 1956, from Mr. Boothe in which he stated that pursuant to the understanding at the meeting of the Board on April 25, 1956, he had communicated with the guaranteeing agencies regarding the advisability of increasing from 5 per cent to 6 per cent the maximum permissible interest rate on loans made pursuant to Regulation V, Loan Guarantees for Defense Production. He reported that all of the agencies contacted either concurred in or expressed no objection to such an increase in the maximum rate. Attached to the memorandum were supporting communications from the guaranteeing agencies. In his memorandum Mr. Boothe also reported a conversation with a staff member of the Office of Defense Mobilization who indicated that that Office would have no objection to the increase. Since he understood that the Small Business Administration was now charging 6 per cent on most of its loans and since the matter was discussed with Department of Commerce officials, Mr. Boothe considered it unnecessary to talk with the Small Business Administration.

In reviewing the matter, Mr. Boothe said that he had also talked with officials of the Federal Reserve Banks of New York and Philadelphia, both of whom expressed approval of an increase to 6 per cent in the maximum permissible rate on the grounds that such a change might prove helpful to some smaller contractors because banks should be more interested in making V-loans on that basis.

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Governor Vardaman said that in view of the information obtained by Mr. Boothe, he doubted the necessity for calling a meeting to discuss the proposal with the guaranteeing agencies. He thought that logically the next step would be to contact the Federal Reserve Banks to obtain their comments. In this connection, he noted that the Reserve Bank Presidents would be in Washington next week for a meeting of the Presidents' Conference. He suggested sending the Presidents a telegram advising that the proposal had been made, with a view to obtaining their comments at the meeting of the Presidents' Conference with the Board.

Governor Mills then made a statement outlining certain considerations which he felt the Board should have in mind before reaching a decision to increase the maximum rate. He first raised the question whether the fact that the guaranteeing agencies appeared to favor the proposal was a sufficient reason for action on the part of the Board. He then pointed out that the Board's authority in connection with the V-loan program was contained in an executive order of the President based on the Defense Production Act of 1950. This led him to suggest that perhaps the Executive Department of the Government should be consulted. He further noted that there had been no exchange of views with the Small Business Administration, the agency of the Executive Branch having responsibility for encouraging participation of small business in the defense procurement program. It would be of some interest to him, he said, to know

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whether that agency had received complaints from small businessmen regarding their inability to obtain V-loan financing. If such complaints had been received and appeared to be attributable to an unwillingness on the part of commercial banks to make V-loans because of an inadequate interest rate, he felt that this would be a factor meriting the Board's consideration. He then suggested the possibility, as an alternative to an increase in the maximum rate, of a reduction in the schedule of guarantee fees, stating that perhaps the Defense Department had accumulated enough reserves at this stage of the V-loan program to make a study of the guarantee fees worth while. Looking at the situation purely from the Government's point of view, it appeared to him that a higher maximum rate of interest on V-loans could very possibly contribute to additional expense on the part of the Government. A higher cost of V-loan financing probably would be written into the bids made by contractors and the Government would have to pay the additional cost. Also, the higher rate might result in reduced tax returns to the Government because of deductions by borrowers for the larger amount of interest expense. For the various reasons which he had stated, Governor Mills felt that the problem of the maximum rate might be a larger and more important one than would appear on the surface. In concluding, he inquired whether Mr. Boothe had any knowledge of the extent that an increase in the maximum rate might be expected to reduce the amount of advance, progress, and partial payments

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by the Government to defense contractors. In that connection, he suggested that the volume of such payments would appear to deserve analysis to see whether they flowed mostly to larger concerns, or to the smaller concerns which might possibly experience difficulty in obtaining V-loans.

In response, Mr. Boothe commented that the representative of the Office of Defense Mobilization with whom he spoke was definite in his feeling that a maximum rate of 6 per cent would tend to help smaller contractors and, on the other hand, would not hurt the larger contractors in any way. This staff member, he said, also expressed himself to the effect that the less the Defense Department had to depend on advance and progress payments, the better off the Government would be. Mr. Boothe suggested that although contractors might include interest paid on V-loans in the cost of their contracts, this apparently would be more economical for the Government than to make progress and partial payments, which are interest-free. He reported having been advised that the Defense Department had slightly over 200 programs outstanding which involved progress and partial payments, with total payments running in excess of \$700 million.

In response to a question by Governor Robertson as to the reasons for an opinion that the small contractor would be helped by increasing the maximum rate, Mr. Boothe said that, as he understood the view of the Defense Department, the argument took the form that the banks are rather short of funds and are becoming more selective in their extensions of

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credit. In these circumstances, an increase in the maximum rate might increase their interest in making V-loans to smaller concerns.

Governor Robertson stated that so far as he knew there had not been a single instance called to the Board's attention where a small contractor was unable to obtain V-loan financing. He questioned whether the Board was carrying out its responsibility to fix rates and fees under Regulation V merely by relying on the views of the guaranteeing agencies. He suggested that the Board should have several affirmative reasons for increasing the maximum permissible interest rate.

Governor Vardaman then outlined his concept of the System's role in relation to the V-loan program, beginning his statement by pointing out that the Reserve Banks serve in the capacity of fiscal agents for the guaranteeing agencies. It was his opinion that the Board should fix rates and fees principally on the basis of assuring that the V-loan facility would be useful to business concerns, both large and small, in their efforts to secure defense contracts, and also to the guaranteeing agencies in their efforts to procure goods and services. He said that if the return to the lender on loans made under the program was far out of line with the return obtainable from other loans and investments, it would seem clear that the program simply was not going to be used to any substantial extent. He went on to suggest that it was difficult for the Board in Washington to know whether any contractor, when he received a

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notice to bid, had gone to his banker to discuss a V-loan and had been turned down, for in such a case it was not likely that the Board would ever hear of the situation. It was his understanding that the program was established primarily for the purpose of encouraging small businesses as well as large concerns to bid on Government contracts; in other words, to widen the base of competition. It was his feeling, he said, that when the Board refused about two years ago to increase the maximum permissible interest rate it might have handicapped the V-loan program by being unrealistic about the rates of interest required to make the facility completely usable. He thought that no one could be sure at this point whether an increase in the maximum rate would tend to reduce appreciably the need for advance and progress payments or to increase the number of bids on defense contracts. As to the possibility of reducing the guarantee fees, he reported a spokesman for the Department of Defense as having told him that the Department would not want to have the schedule of fees reduced because it did not consider itself adequately protected by the reserves that had been accumulated. He did not feel that it would be appropriate for the Board to make a judgment on this point. In his view, the Board's responsibility ran solely in the direction of fixing what in its judgment was a maximum interest rate adequate to make the V-loan facility usable, and a schedule of guarantee fees acceptable to the guaranteeing agencies.

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Following further discussion of the Board's responsibilities in relation to the V-loan program, during which Mr. Vest read portions of the pertinent executive order, Governor Robertson said that he did not see anything in the picture at this time on which to base a firm judgment that a maximum interest rate of 6 per cent would be appropriate or, on the other hand, would not be appropriate. It was the Board's responsibility, he felt, to try to determine what maximum was appropriate and would facilitate the program. He saw nothing in the record to indicate that the program was being endangered at the moment by the 5 per cent maximum rate or anything which would indicate that the program would be aided by increasing that rate to 6 per cent. The Board had no indication of V-loan applications having been turned down and it had no indication from the Small Business Administration that small businesses were being excluded from the defense procurement program due to an inability to obtain financing. In summary, he felt that the Board should have a better basis for making a determination than it now had.

There ensued a discussion of the current status of the V-loan program, the breakdown of loans by size, the net return to the lender under various guarantee arrangements, and the relationship of such returns to the yield available from nonguaranteed loans.

Chairman Martin said that looking at the question solely from the standpoint of the current level of interest rates generally, it seemed to him that a maximum permissible rate of 6 per cent on guaranteed loans

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would not be unreasonable. He doubted whether the question must be complicated by considering too many of its fringe aspects, although it was well to have in mind such considerations as Governor Mills had mentioned. He had not changed his view, he said, from the first time he read Mr. Boothe's earlier memorandum; namely, that from the point of view of changes in the interest rate structure over the past two years, an increase in the maximum rate on V-loans would seem to be warranted. He then suggested sending a telegram to the Chairman of the Presidents' Conference in order to obtain the comments of the Reserve Bank Presidents next week.

A draft of telegram that might be sent for this purpose was then read and certain suggestions were made as to the content.

Thereupon, unanimous approval was given to a telegram to Mr. Leedy, Chairman of the Presidents' Conference, reading as follows:

Question has arisen whether, in view of increase in interest rates, it would be advisable to increase maximum permissible interest rate on V-loans from 5 to 6 per cent or whether adjustment should be made in guarantee and commitment fees. Board would appreciate it if this matter could be placed on the agenda for the forthcoming Presidents' Conference for discussion by the Conference and at the joint meeting of the Conference and the Board. The Board would also be interested in knowing whether the Federal Reserve Banks have any evidence that would indicate that the present maximum permissible interest rate is a deterrent to the extension of V-loans. In view of the short time remaining before the Presidents' meeting a copy of this wire is being sent to the Presidents of each of the other Federal Reserve Banks.

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During the foregoing discussion Messrs. Young and Hackley withdrew from the meeting.

Governor Balderston presented a memorandum from Mr. Young dated May 1, 1956, recommending that Frank M. Tamagna be transferred from the position of Chief, Financial Operations and Policy Section, Division of International Finance, to the position of Consultant on Savings Statistics in the Division of Research and Statistics, without change in his present salary at the rate of \$12,690 per annum. The memorandum stated that the position which Mr. Tamagna would occupy was provided for in a supplement to the 1956 budget of the Division of Research and Statistics resulting from the request of the Office of Statistical Standards in the Bureau of the Budget that the Board undertake additional responsibilities in the field of savings statistics.

Governor Balderston also commented on certain personnel shifts which would be made within the Division of International Finance incident to Mr. Tamagna's transfer.

The recommended transfer was approved unanimously, effective May 6, 1956.

Secretary's Note: On May 4, 1956, Governor Balderston approved on behalf of the Board a memorandum dated May 3, 1956, from Mr. Marget, Director, Division of International Finance, recommending the transfer of J. Herbert Furth from the position of Chief, Western European and British Commonwealth Section, to the position of Chief, Financial Operations and Policy Section;

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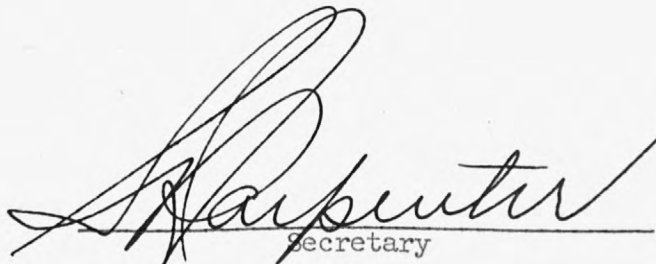
the transfer of Samuel I. Katz from the position of Economist to the position of Chief, Western European and British Commonwealth Section; and certain other intra-divisional transfers, all without change in present salaries, effective May 6, 1956. The memorandum also stated that it was proposed to change the title of the Western European and British Commonwealth Section to British Commonwealth, Scandinavia, and Near East Section; and the title of the Central and Eastern European Section to European Section.

The meeting then adjourned.

Secretary's Note: Governor Balderston today approved on behalf of the Board the following items:

Memorandum dated April 26, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of W. Dale Trimmer, Assistant Cafeteria Manager in that Division, be accepted effective May 11, 1956.

Memorandum dated May 1, 1956, from Mr. Johnson, Director, Division of Personnel Administration, recommending that the resignation of Alice W. Nesbitt, Clerk in that Division, be accepted effective May 11, 1956.


Secretary