Minutes for May 7, 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.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
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<tbody>
<tr>
<td>Chm. Martin</td>
<td>x</td>
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<tr>
<td>Gov. Szymczak</td>
<td>x</td>
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<tr>
<td>Gov. Vardaman</td>
<td>x</td>
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<td>Gov. Mills</td>
<td>x</td>
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<td>Gov. Robertson</td>
<td>x</td>
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<td>Gov. Balderston</td>
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<td>Gov. Shepardson</td>
<td>x</td>
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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 7, 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. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Memorandum dated April 26, 1956, from Mr. Fauver, Assistant Secretary of the Board, regarding an invitation to participate in the Ninth Annual Executives Seminar of the National Savings and Loan League, to be held at Mercersburg Academy, Mercersburg, Pennsylvania, July 15-20, 1956.

Mr. Fauver's participation in the seminar was approved unanimously.

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

In accordance with your request of April 12, 1956, the Board of Governors rescinds the approval given in its letter of March 12, 1956, pertaining to the salaries of the
Head Painter and Painter and approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions listed below at the rates indicated, effective April 1, 1956:

<table>
<thead>
<tr>
<th>Title</th>
<th>Annual Salary</th>
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<tbody>
<tr>
<td>Head Painter</td>
<td>$6,812.00</td>
</tr>
<tr>
<td>Painter</td>
<td>$6,130.80</td>
</tr>
</tbody>
</table>

Approved unanimously.

Letter to the Board of Directors, Security Trust Company of Rochester, Rochester, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by Security Trust Company of Rochester, Rochester, New York, in Southtown Plaza, a shopping center located at the southwest corner of West Henrietta Road and Jefferson Road, Town of Henrietta, New York, provided the branch is established within one year from the date of this letter.

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

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

As recommended in Mr. Slade's letter of April 13, 1956, the Board of Governors, under the provisions of Section 24A of the Federal Reserve Act, approves an additional investment in bank premises not to exceed $150,000 by the Barnes Banking Company, Kaysville, Utah.

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 March 27, 1956, enclosing photostatic copies of an application to convert the Easley Bank, Easley, South Carolina,
into a national banking association and requesting a recommendation as to whether or not the application should be approved.

Information supplied by the Federal Reserve Bank of Richmond about the Easley Bank is favorable with respect to its financial history, adequacy of capital structure, earnings prospects, character of its management, and services to the community. Therefore, 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 Richmond.

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 6, 1956, enclosing photostatic copies of an application to organize a national bank at Clayton, Missouri, 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 St. Louis 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 approximately 75 per cent of the capital stock of the proposed bank will be owned by the Delk Investment Corporation, which presently owns the controlling interest in a State member bank in St. Louis. In January 1940 the Board determined that the Delk Investment Corporation was not engaged as a business in holding the stock of, or managing and controlling banks within the meaning of Section 2(c) of the Banking Act of 1933. However, if a charter is issued to the proposed national bank,
it will be necessary to reconsider the holding company relationship and this may result in the corporation having to obtain a voting permit before it could vote the stock of the member banks which it owns or controls. 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 a copy to the Federal Reserve Bank of St. Louis and with the understanding that Governor Robertson would discuss informally with the Office of the Comptroller of the Currency certain factors in respect to the management of the proposed bank to which attention was called by Governor Vardaman.

There were presented telegrams to the following Federal Reserve Banks approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

- Atlanta: April 30
- New York: May 3
- Chicago: May 3
- Kansas City: May 3

Approved unanimously.

There had been sent to the members of the Board copies of a draft of proposed letter to Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council, suggesting topics for discussion at the meeting of the Board with the Council to be held on May 22, 1956.
Among other things, the letter would state that the Board would be glad to have any comments the Council might care to make regarding the Bank Holding Company Act of 1956. In a discussion of this point, it was stated that the intention of this topic was to invite comments on procedural problems under the holding company act rather than comments concerning the legislation itself. It was also stated that if this topic were included, the letter to Mr. Korsvik would not be sent until the President had signed the act.

It was then suggested that the holding company topic might be omitted and that the subject could be taken up informally with the Council if that seemed desirable in the light of developments. There was agreement with this suggestion.

Governor Balderston inquired whether it would be advisable to request the Council's views concerning recent statements in the press and elsewhere that the Federal Reserve System's policy of credit restraint touched more heavily on the small borrower than the larger users of credit.

Mr. Young suggested that reference might be made to the survey conducted recently by Standard Factors Corporation which indicated that the tightening of the money supply had not affected all businesses in the same fashion. He said the Council might be asked whether the findings of the survey were in accord with their observations and, if there appeared to be a differential effect, how the Council members would deal
with it. This would be with the understanding that copies of the study made by Standard Factors would be sent to the members of the Council for review prior to the meeting.

There was agreement that a topic should be included in the letter along the lines proposed by Mr. Young. Governor Vardaman suggested that the matter also be submitted to the Presidents of the Federal Reserve Banks with a view to discussion at the joint meeting of the Presidents and the Board on Wednesday, May 9.

In this connection, Mr. Young said that thought would be given to assigning members of the Board's staff to make an inventory of the possible approaches to information in this area. Mr. Thomas added that the subject could be mentioned on the occasion of the visit to the Board's offices on Thursday, May 10, by the group of bank economists participating in a seminar arranged by the Treasury Department.

Thereupon, unanimous approval was given to a letter to Mr. Korsvik in the following form, with the understanding that the fourth topic mentioned in the letter would also be submitted to the Presidents' Conference with a request that it be discussed at the joint meeting of the Board and the Presidents on May 9:

The Board would appreciate having the following items placed on the agenda for the meeting of the Board and the Federal Advisory Council to be held on Tuesday, May 22, 1956:

1. What are the views of the Council with respect to the prospective business situation from now until late 1956?
What is the current situation with respect to inventory accumulations? To what extent is there a gray market in steel?

2. (a) What is the current situation with respect to demand for commercial and industrial loans? (b) What is the outlook for such demands during approximately the next six months? Is there likely to be an increased demand around the middle of June similar to that shown in March? (c) Is demand for consumer credit increasing or leveling off? (d) What is the current and prospective situation with respect to mortgage loan demand, and are mortgage lenders in a position to take care of credit demands?

3. What are the views of the members of the Council with respect to the credit policies that should be followed by the System over the next six months?

4. Does the recently released Standard Factors analysis (copy attached) accord with the observations of the members of the Council as to the incidence by size of borrower of tighter credit availability? If a differential effect has resulted, how would you deal with it?

At the meeting of the Council with the Board in February, reference was made to the study of consumer credit requested by the President. The Board has undertaken a study of this subject and, if desired, would be glad to discuss the study with the Council.

The Secretary read a letter received by Mr. Thomas from the Secretary of the Economic Policy Commission of the American Bankers Association which expressed appreciation of the meeting with the Board last Tuesday, May 1, at which the Commission's study of reserve requirements was discussed. The letter stated that the points raised in Mr. Thomas's memorandum of April 27, 1956, were being studied by the Commission and requested an additional 12 copies of the memorandum for
distribution to the members of the Commission who were not present at the meeting on May 1.

Following a brief discussion, it was agreed that the additional copies should be sent to the Commission for distribution. In addition, it was understood that at the joint meeting of the Board and the Reserve Bank Presidents on May 9, Chairman Martin would make a statement concerning the meeting of the Board with the Economic Policy Commission so that the Presidents might be informed of developments.

The meeting then adjourned.

Secretary's Note: On April 30, 1956, the Board approved a telegram to the Federal Reserve Bank of New York authorizing the granting of a loan or loans on gold to Banco Central del Ecuador. In a telegram dated May 3, the Reserve Bank advised that Banco Central subsequently requested the right to draw under the loan arrangement at any time on or before June 30, 1956, instead of May 15, 1956, and that the Bank's directors had acted favorably on the request, subject to the approval of the Board of Governors. The following telegram, having been approved by the available members of the Board on May 4, 1956, was sent on that date to Mr. Exter, Vice President, Federal Reserve Bank of New York:

Your wire May 3. Board approves change in terms and conditions of gold loan to Banco Central del Ecuador giving them the right to draw under the loan arrangement at any time on or before June 30, 1956, in lieu of May 15, 1956.
Secretary's Note: On May 4, 1956, Governor Balderston approved the following items on behalf of the Board:

Memorandum dated May 3, 1956, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Beverly A. Murphy as Records Clerk in the Office of the Secretary, with basic salary at the rate of $3,585 per annum, effective the date she assumes her duties.

Memorandum dated May 2, 1956, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of L. Marie Phipps as Clerk-Typist in that Division, with basic salary at the rate of $3,175 per annum, effective the date she assumes her duties.

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

In accordance with the request contained in your letter of May 1, 1956, the Board approves the designation of Richard G. Mickel as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the designation is made effective.

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

Memoranda dated May 4, 1956, from Mr. Johnson, Director, Division of Personnel Administration, recommending the appointments of Patricia Ruth Faust, Joyce Ann Meyer, Joan Claire Bell, and Carrie Elizabeth Patterson as Clerk-Stenographers in that Division, with basic salaries at the rates of $3,415, $3,415, $3,415, and $3,500 per annum, respectively, effective as of the respective dates on which they assume their duties. These recommendations were made in accordance with the recruitment program approved by the Board on April 24, 1956.

Memorandum dated May 1, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Dorothy D. Taylor, Clerk-Stenographer in that Division, be accepted effective May 25, 1956.