

Minutes for May 24, 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>(w)</u>
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	_____	x <u>R</u>
Gov. Balderston	x <u>ccrB</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 24, 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 1/
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Hackley, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Goodman, 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. Crane, Federal Reserve Agent, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of May 3, 1956, the Board of Governors approves the appointment of Mr. Anthony J. Segesti as Alternate Assistant Federal Reserve Agent, effective July 1, 1956, to succeed Mr. Joseph H. P. Farnon.

This approval is given with the understanding that Mr. Segesti will be placed upon the Federal Reserve Agent's

1/ Withdrew from meeting at point indicated in minutes.

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pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It is noted from your letter that it is contemplated that when Mr. Segesti is not engaged in his duties as Alternate Assistant Federal Reserve Agent he will serve on work of the Bank Examinations Department. Mr. Segesti should execute the usual oath of office which should be forwarded to the Board of Governors.

Approved unanimously.

Letter to Mr. Woodward, Federal Reserve Agent, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in Mr. Shepherd's letter of May 14, 1956, the Board of Governors approves the appointment of Mr. George A. Farris, Jr. as Federal Reserve Agent's Representative at the Baltimore Branch, to succeed Mr. Henry J. Sheckels.

This approval is given with the understanding that Mr. Farris will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Baltimore Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

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It is noted that the appointment of Mr. Farris becomes effective at the time he executes his oath of office, which will be forwarded to the Board of Governors.

Approved unanimously.

Letter to The First National City Bank of New York, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish an additional branch in the Municipality of Havana, Republic of Cuba, on the plot of land known as No. 1, Block No. 2, on the southeast corner of the intersection of Rancho Boyeros Highway and the new highway leading toward San Francisco de Paula, and to operate and maintain such branch subject to the provisions of such section; upon condition that, unless the branch is actually established and opened for business on or before May 1, 1957, all rights granted hereby shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date.

It is understood, of course, that no change will be made in the location of such branch without the prior approval of the Board of Governors.

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

Letter to the Board of Directors, Matinecock Bank of Locust Valley, Locust Valley, 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 Matinecock Bank of Locust Valley, Locust Valley, New York, at 282 Bayville Avenue, Bayville, New York, provided the branch is established within six months from the date of this

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letter and the approval of the State authorities is effective as of the date the branch is established.

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

Letter to the Board of Directors, Fidelity Union Trust Company,
Newark, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by Fidelity Union Trust Company, Newark, New Jersey, of a temporary branch at 790 Broad Street, Newark, New Jersey, provided formal approval is obtained from the appropriate State authorities and the branch is established within six months from the date of this letter.

It is understood that the activities of this branch will be limited to the operation of the trust company's Time Sales Department, which will be removed to the new main office quarters at 763 Broad Street, Newark, New Jersey, upon completion of the new building at that location.

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

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of
Richmond, reading as follows:

Reference is made to your letter of May 8, 1956, submitting the request of Massanutten Bank of Strasburg, Strasburg, Virginia, for the Board's approval under Section 24A of the Federal Reserve Act of an additional investment not to exceed \$107,500 in bank premises to cover the cost of new banking quarters under construction.

After consideration of the information submitted, the Board concurs in the recommendation of the Reserve Bank and approves an additional investment in bank premises by the bank of not to exceed \$107,500.

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It is understood that the present building will be sold and the proceeds applied to the reduction in investment in bank premises.

Approved unanimously.

Letter to the Board of Directors, First Bank and Trust Company of South Bend, South Bend, Indiana, reading as follows:

On June 2, 1955, the Board of Governors approved the establishment of a branch at 4706 West Western Avenue, South Bend, Indiana, by the First Bank and Trust Company of South Bend, provided the branch was established within one year from June 2, 1955.

In accordance with the proposal submitted through the Federal Reserve Bank of Chicago, the Board of Governors now approves the establishment of the branch at 4702 West Western Avenue, South Bend, Indiana, instead of at the location originally proposed and approved and, furthermore, extends until December 31, 1956, the time within which the First Bank and Trust Company of South Bend may establish the branch.

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

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

Reference is made to your letter of May 8, 1956, submitting with a favorable recommendation a request of The Bank of Edwardsville, Edwardsville, Illinois, for permission under Section 24A of the Federal Reserve Act to invest \$96,500 for the purpose of remodeling its banking premises.

The Board has given consideration to the information you have submitted and approves the additional investment of not exceeding \$96,500 by The Bank of Edwardsville for the purpose of remodeling its banking premises

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with the understanding that the total carrying value of the asset will be written down to \$175,000 when the program is completed. Please advise the bank accordingly.

Approved unanimously.

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

Reference is made to your letter of May 11, 1956, submitting the request of the Farmers-Stockgrowers Bank, Glasgow, 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.

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 Farmers-Stockgrowers Bank of not to exceed \$113,000 for the purpose of erecting a new building. This proposed investment is exclusive of the bank's present investment in recently acquired real estate on which the premises are to be erected.

It is understood that approximately \$60,000 to be realized from sale of the present bank building and increment on U. S. Savings Bonds will be applied first to reduce the carrying value of the banking house to \$70,000, with the remainder to be used to reduce the investment in furniture and fixtures. It is assumed that the member bank will continue to reduce this investment on a planned and regular basis.

Approved unanimously.

Letter to the Board of Directors, Bank of Laramie, Laramie, Wyoming, approving, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City. The letter also contained the following paragraphs:

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The report of examination for membership, made as of April 2, 1956, showed that the bank's investment in bank premises exceeded the amount of its capital stock, and indicated that the book value would probably be increased \$2,500 to complete an adjoining parking lot. The provisions of Section 24A of the Federal Reserve Act, relating to such investments, apply to State banks only after they have been admitted to membership in the System. However, since there is a question as to when the additional expenditure of \$2,500 will be made, the Board herewith gives its approval to such investment. In so doing, it is understood the management has agreed to depreciate banking premises and furniture and fixtures in the maximum amounts allowed for income tax purposes, and that the rate of depreciation will be increased at the end of three years when the bank's earnings have been established, with a view to reducing the book value of such assets to the amount of its capital stock.

It appears that the bank is authorized to exercise trust powers and certain other powers not necessarily incidental to commercial banking but that such powers are not being exercised at this time. Attention is invited to the fact that if the bank should desire to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the bank since the time of its application for membership.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Kansas City, with
a letter of transmittal to the
Reserve Bank containing the fol-
lowing paragraph:

The report of examination for membership, made as of April 2, 1956, disclosed several business accounts carried in savings deposits which did not conform to the definition of "Savings Deposits" as set out in Regulation Q. It is noted this matter has been discussed with the management of the bank which has agreed to comply with the provisions of the regulation if and when the bank is admitted to membership.

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

Reference is made to your letter of May 8, 1956, enclosing information concerning the absorption of the First National Bank of Clarendon by The Farmers State Bank of Clarendon, Clarendon, Texas, which was completed without obtaining the prior consent of the Board under the provisions of Section 18(c) of the Federal Deposit Insurance Act.

After considering the available information and your recommendation, the Board of Governors will interpose no objection to the transaction. It is understood that a valuation reserve has been provided for the market depreciation in the investment securities acquired from the national bank and that a sale of the building formerly occupied by the national bank has been effected.

Please notify the bank of the Board's action.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Reference is made to a letter from your office dated January 27, 1956, enclosing photostatic copies of an application to organize a national bank at Roswell, New Mexico, 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 Dallas indicates that the proposed capital structure of the bank appears to be reasonable in relation to expected deposit volume, but that it may be inadequate when consideration is given to the probable investment in fixed assets necessary to meet existing competition and to absorb probable operating deficits during the first few years of operation. The prospects for earnings of the institution do not appear favorable, the general character of the proposed management is not regarded as satisfactory, and the need for an additional banking facility is not apparent. In the circumstances, the Board of Governors does not feel justified in recommending approval of the application.

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The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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

Letter for the signature of the Chairman to The Honorable Emanuel Celler, Chairman, Committee on the Judiciary, House of Representatives, reading as follows:

Reference is made to your letter of May 4, 1956, requesting a report on H. R. 6682, to authorize the abbreviation of the record on the review or enforcement of orders of administrative agencies by the courts of appeals and the review or enforcement of such orders on the original papers and to make uniform the law relating to the record on review or enforcement of such orders, and for other purposes.

On May 14, 1956, the Board sent to the Chairman of the Committee on the Judiciary of the Senate a report on the bill, S. 2223, which is identical with H. R. 6682. Two copies of the Board's report are enclosed.

Approved unanimously, together with the following letter to The Honorable Percival F. Brundage, Director, Bureau of the Budget, Washington, D. C.:

On May 14, 1956 the Board sent you a copy of the letter which, because of the shortness of time, it had sent directly to the Chairman of the Committee on the Judiciary of the Senate in response to a request for a report on the bill, S. 2223, to authorize the abbreviation of the record on review by the courts of orders of administrative agencies, and to make more uniform the various laws relating to judicial review of such orders.

The Board has now received a request from the Chairman of the Committee on the Judiciary of the House of Representatives for a report on H. R. 6682, which is

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identical with S. 2223. In the circumstances the Board has sent him a copy of its report on S. 2223. For your convenience, four copies of that report are enclosed.

There had also been circulated to the members of the Board a draft of letter to The Bank of Virginia, Richmond, Virginia, which would approve the establishment of an in-town branch in the College Social Center Building of the Medical College of Virginia.

In view of questions which were raised regarding the member bank's capital position in the light of information contained in an accompanying memorandum from the Division of Examinations, it was agreed to defer action on the branch application pending the preparation of another memorandum by that Division which would supply further information on the bank's condition.

Reference was made to the following draft of letter to Mr. Walter E. Cosgriff, President, The Continental Bank and Trust Company, Salt Lake City, Utah, which had been circulated to the members of the Board:

This is to acknowledge receipt of your letter dated May 9, informing the Board of Governors that, at the meeting of stockholders on May 8, the proposal to increase the capital stock of The Continental Bank and Trust Company was defeated, 1,265 shares being voted in favor of, and 148,866 shares against, the proposal.

The matter was considered from the standpoint of whether any reply to Mr. Cosgriff's letter was needed and, if so, whether it should

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make some reference to the suggestion and request contained in the letter. Mr. Cosgriff had suggested that the Board ask the Congress for specific authority to require member banks to provide capital within certain defined limits, and he had requested that public hearings of record be held in Salt Lake City concerning the Board's proposal that the capital structure of The Continental Bank and Trust Company be increased.

In this connection, it was stated that the report of the recent examination of the member bank by the Federal Reserve Bank of San Francisco had been completed, and that the Reserve Bank was about to send a copy of the report to the member bank with a covering letter which would state that in due course the bank would be advised as to what action the Board of Governors had decided on with regard to the capital situation.

It was the consensus that an acknowledgment of Mr. Cosgriff's letter would be appropriate but that a more detailed reply would not be advisable until such time as the report of examination had been studied and a decision had been made as to the further action that the Board should take in regard to the proposed capital increase.

Accordingly, unanimous approval was given to the letter to Mr. Cosgriff as set forth above.

At this point Mr. Young, Director, Division of Research and Statistics, entered the room.

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There had been circulated to the members of the Board a draft of letter to the Federal Reserve Bank of Chicago which would authorize the Bank to proceed with the preparation of preliminary plans for an addition to the head office building. When the file on this matter was in circulation, Governor Vardaman attached to it a note stating that he would like to be present when the subject was discussed.

In response to a request by Chairman Martin, Mr. Leonard summarized briefly the head office building program of the Chicago Bank and indicated that although the Bank was anxious to proceed with the program and to place an order which would assure availability of the necessary steel, it did not appear that the situation was of such urgency as to require immediate action on the part of the Board.

In view of Mr. Leonard's statement, there was agreement with a suggestion by Chairman Martin that action on the matter be deferred until after the return of Governor Vardaman early in June.

Prior to this meeting the members of the Board had been furnished copies of a memorandum dated May 17, 1956, from Mr. Solomon, Assistant General Counsel, concerning a request from American Overseas Finance Corporation, a nonbanking Edge Act corporation, for relaxation, in a specific case, of the present limitation on loans to one borrower (20 per cent of the corporation's capital and surplus) which is contained in

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Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act. The memorandum stated that in discussing the proposed revision of Regulation K with Governor Szymczak and members of the Board's staff, representatives of American Overseas Finance Corporation suggested that in the revised regulation the limitation on loans to one borrower be increased to 50 per cent of capital and surplus when the obligation is guaranteed by a foreign government, and that the staff probably would recommend adoption of the suggestion. During the discussion, the President of American Overseas Finance Corporation was reported to have said that cases might come up in the interim which would exceed the 20 per cent limit. In response to his question as to whether it would be possible to obtain permission to handle such financing, he was told that it would be appropriate to present such a request through the Federal Reserve Bank of New York.

The Corporation had now requested permission to acquire \$5 million of obligations purported to represent a general and unconditional obligation of the Government of Venezuela. It was understood that the proposed financing would comply with all legal requirements except that the \$5 million would be 50 per cent of the Corporation's capital and surplus instead of the specified 20 per cent.

Mr. Solomon's memorandum pointed out that since American Overseas Finance Corporation is the only nonbanking Edge Act corporation

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in existence, it is the only corporation subject to the limitation. It also pointed out that American Overseas has neither depositors nor debenture holders who might be adversely affected if the Board should approve the request. There was submitted with the memorandum a draft of letter to the Corporation which would advise that the Board would have no objection to treatment of the obligation of the Venezuelan Government as if it were subject to a limitation of 50 per cent of the Corporation's capital and surplus. The letter would state, however, that it should be clearly understood that no decision had been reached on the general problem of limitations on loans to one borrower.

In reviewing the matter at the request of the Board, Mr. Vest brought out that if the present limitation were waived in this specific instance it might be regarded as an indication of the Board's intention to provide in the revised Regulation K a limitation of 50 per cent of capital and surplus. While the situation was admittedly an unusual one, it was the view of the staff, he said, that the Board could well comply with the request.

Mr. Goodman stated that while he was somewhat reluctant to see a modification of the limitation prior to action by the Board on the revised Regulation K, he felt on balance that it might help to try this as an experiment, with no commitment for the future. He said that American Overseas Finance Corporation had experienced a number of

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difficulties and that this would be in the direction of facilitating overseas transactions.

Governor Szymczak recommended approval of the request. After reviewing the purposes for which American Overseas Finance Corporation was organized and the difficulties that it had encountered, he emphasized that the Corporation had no depositors or debenture holders and was operating solely on funds supplied by the organizers.

Governor Mills expressed the view that as long as American Overseas Finance Corporation was operating with its own capital, there were good reasons for allowing it greater latitude than might otherwise be appropriate. At the same time, he said, it should be remembered in establishing policy that American Overseas is authorized to go into the market and issue debentures within certain limitations, and that other banks might enter this field and organize similar corporations. If they were to sell debentures, in a sense they would be doing so against the name and standing of the banks in the sponsoring group. Should such a corporation be permitted to lend up to 50 per cent of its capital and surplus to one borrower, and if the obligation was that of a foreign government, he felt that to a degree there might be dilution of the quality of the capital cushion standing behind the Edge corporation's debentures. Therefore, while he was agreeable to compliance with the current request, he felt that a problem was presented which

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should have serious consideration from a long-range standpoint in connection with the proposed revision of Regulation K.

Chairman Martin said that he considered Governor Mills' point well taken. On the other hand, he went on to say, it seemed in the interest of public policy for the Board to encourage as much as possible a venture of the kind represented by American Overseas Finance Corporation. In this connection, he understood that as a result of initial operations, those interested in the Corporation had become quite discouraged. It was his opinion that for the present the chances of interesting parties in buying debentures of American Overseas would be very small.

Governor Szymczak concurred in the view that when further consideration was given to the proposed revision of Regulation K, it would be advisable to keep in mind the points mentioned by Governor Mills.

At the conclusion of the discussion, unanimous approval was given to the following letter to Mr. Norbert A. Bogdan, President, American Overseas Finance Corporation, New York, New York, for transmittal through the Federal Reserve Bank of New York:

Your telegram of May 17, 1956 refers to a proposed acquisition of obligations by your Corporation in the amount of \$5 million. The details of the proposal are not entirely clear from your telegram, but on the basis of further discussion with you it is understood that you expect the obligations in question to be general and unconditional obligations of the Government of Venezuela. Your Corporation does not receive any deposits and it does not have outstanding any publicly issued bonds or debentures. You also indicate

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that the proposed financing would comply with Regulation K and applicable law in all respects, except that the \$5 million of obligations would be 50 per cent of your capital and surplus instead of the 20 per cent specified in the last sentence of the first paragraph of section XV of Regulation K.

You ask, in effect, that in this particular case the Board permit you to treat the proposed general and unconditional obligation of the Government of Venezuela as being subject to a limitation of 50 per cent of your capital and surplus instead of the 20 per cent mentioned above.

As you know, the general problem of limitations on loans to one borrower is under consideration in connection with the possible revision of Regulation K. On the basis of the understanding above, the Board will not object to your treating the proposed \$5 million general and unconditional obligation of the Venezuelan Government in the present case as if it were subject to a limitation of 50 per cent of your capital and surplus instead of the 20 per cent mentioned above. It should be clearly understood, however, that no decision has been reached on the general problem of limitations on loans to one borrower, and that the Board may or may not adopt such a 50 per cent limitation in the regulation.

Mr. Hexter then withdrew from the meeting.

In response to the Board's letter of May 14, 1956, the Federal Reserve Banks had submitted a number of preliminary comments, mostly of a minor or technical nature, regarding the draft of a proposed Regulation Y, relating to bank holding companies. These comments were summarized in a memorandum from Mr. Hackley dated May 22, 1956, copies of which had been sent to the members of the Board prior to this meeting. Also submitted with the memorandum was a revised draft of regulation, prepared on the basis of the comments received. It was recommended that

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the revised draft be published in the Federal Register, with an invitation for comments and suggestions to be submitted within 30 days from the date of publication.

In discussing the matter, Mr. Hackley said that it was not legally necessary to provide 30 days after date of publication in the Federal Register for submission of comments and suggestions. It was his view that in this case it would be reasonable to require that comments be received not later than June 25, 1956.

Thereupon, it was agreed unanimously that the revised draft of regulation should be sent to the Federal Register today, in the form of a Notice of Proposed Rule Making, with a statement that any relevant data, views, or arguments should be submitted in writing, preferably through the Federal Reserve Bank of the district, to be received not later than June 25, 1956. In this connection, it was understood that copies of the revised draft of regulation would be sent to the Presidents of all Federal Reserve Banks with an appropriate letter of transmittal.

Under date of May 11, 1956, Mr. Bryan, President of the Federal Reserve Bank of Atlanta, wrote to Governor Balderston with reference to the recent study made for Standard Factors Corporation concerning the effect of a restrictive credit policy on the availability of credit to small business. In his letter, copies of which had been distributed to the members of the Board, Mr. Bryan expressed agreement with the conclusion of the Presidents' Conference, as stated at the joint meeting

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of the Board and the Presidents on May 9, 1956, that the System should determine as far as possible the methods and procedures used in the Standard Factors study. He also felt, however, that the System, perhaps through an independent research agency, should institute a factual investigation of the credit problems of small business.

Governor Balderston referred to the discussion of this subject at the meeting of the Board with the Federal Advisory Council last Tuesday, May 22, and commented that the discussion reflected the view customarily expressed by bankers; that is, that charges of discrimination against the small borrower are not valid. He then raised the question whether the views expressed by Mr. Bryan should be brought to the attention of the Presidents of all of the Reserve Banks, with a suggestion that the respective research departments undertake studies which would take into account the experience of borrowers as well as bankers. To reach conclusions, he suggested, it seemed necessary to look at both sides of the picture, or, in other words, to get two interlocking samples.

Mr. Young then made a statement in which he recalled that the question of the availability of credit to small business was one that has been raised periodically, particularly when there is a threat of a downturn in business. The need, he suggested, was to work out some mechanism that would afford a stream of information, in both good times

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and bad, on the financing problems of small business. He went on to say that while it was a difficult field, there was no doubt some feasible method by which data could be obtained that would be sufficiently comprehensive and have enough depth to enable one to draw conclusions as to whether business concerns of smaller size were experiencing undue difficulty in getting credit. He then said that Mr. Brill, Chief of the Business Finance and Capital Markets Section, had been working on the subject -- that is, the matter of ways and means of approaching the problem -- and was developing a memorandum dealing with alternative approaches. It was Mr. Young's suggestion that the Board review this memorandum before referring the matter to the Federal Reserve Banks. He then described certain statistical information on bank credit already available to the Board which might have some bearing on the subject.

Chairman Martin suggested that the Board await Mr. Brill's memorandum before deciding on what further steps should be taken.

Governor Balderston agreed and suggested that in the meantime a reply be sent to President Bryan stating that the points raised in his letter were being studied and that the Board would be in touch with him again.

There was unanimous agreement with these suggestions.

Mr. Young then withdrew from the meeting.

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Following the discussion at the meeting of the Board on May 14, 1956, relating to the proposed retention of Mr. Bolling R. Powell, Jr., of Blum, Lindsey & Powell, Washington, D. C., as special counsel to the Board in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, Mr. Vest contacted Mr. Powell and requested information concerning the matters currently being handled by the firm and its partners in which the United States Government is either a party or might have a direct or indirect interest. This information was furnished in a letter from Mr. Powell to Mr. Vest dated May 17, 1956, copies of which had been sent to the members of the Board prior to this meeting.

Mr. Vest stated that there was no information in Mr. Powell's letter which in his opinion would suggest a conflict of interests should Mr. Powell be retained to represent the Board in the Continental matter. There remained, he said, the general question posed by the provisions of section 281 of the United States Criminal Code. In reviewing the matter from that standpoint, he pointed out that even if the provisions of the code were held to be applicable, the Board's case would not be affected, except insofar as any embarrassment might be created by the instituting of proceedings against the Board's counsel. While he considered the question of the applicability of the statute a difficult legal point, he was of the opinion that the statute would not

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apply. He felt that Mr. Powell would be an independent contractor rather than an officer of the United States, and that the courts would so hold.

Mr. Vest then stated that he had discussed the matter with Governor Robertson, who also thought that the statute would be held not to be applicable on the grounds that Mr. Powell was an independent contractor. He said Governor Robertson expressed himself as feeling that any risk involved was remote and stated that he would not be disposed to refrain from employing Mr. Powell as special counsel.

Further discussion concerned the effect on the case if the statute were maintained to be applicable and the alternative possibilities which the Board might follow. It was the view that there was much to be said for retention of special counsel located in Washington and that it probably would be difficult to locate an attorney of repute who would not be in the same situation as Mr. Powell.

Because of these considerations and because of an inclination to feel that the possible applicability of the statute referred to by Mr. Vest did not present a serious risk to the success of proceedings against The Continental Bank and Trust Company, it was the view of the Board that arrangements for the retention of Mr. Powell as special counsel should go forward.

Accordingly, it was understood that Mr. Vest would work out with

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Mr. Powell an appropriate arrangement for the latter's retention as special counsel.

Secretary's Note: The letter sent to Mr. Powell on May 25, 1956, in accordance with this action was as follows:

The Board of Governors of the Federal Reserve System is prepared to retain you as special counsel for the Board in an administrative proceeding which it is contemplated may be brought by the Board against a State member bank of the Federal Reserve System located in Salt Lake City, Utah, to forfeit the membership of this bank in the System under the provisions of section 9 of the Federal Reserve Act. It is understood that you will perform the work of special counsel in this proceeding on your own responsibility but with consultation with the Board or the Board's General Counsel. You will not be considered an employee or officer of the Board, and your relationship to the Board will be one of contract rather than appointment. Your compensation will be on a per diem or per hour basis, according to the time you devote to this matter, and it is expected, of course, that you as a member of the firm of Blum, Lindsey & Powell will continue to maintain your customary offices and to accept and perform other legal work as usual.

It is understood that the Board will pay you at the rate of \$250 a day for days when it is necessary for you to work on this matter at any place outside of Washington, D. C., and at the rate of \$25 an hour for work performed in Washington, D. C., plus \$10 an hour for work performed by juniors and assistants in your firm. You will also be paid actual necessary transportation expenses and a per diem of not to exceed \$12 in lieu of subsistence on a basis equivalent to that provided in Section B of the Board's Travel Regulations (copy enclosed) for all time in travel status for such trips as it may be necessary for you to make in carrying out this work.

It is understood also that the arrangement is subject to termination by the Board at any time and for any reason upon 30 days' notice in writing to you.

If the arrangement as described above is agreeable to you, we will appreciate your written confirmation as promptly

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as possible. We trust that the arrangement will prove to be mutually satisfactory and agreeable in every way.

Governor Mills withdrew from the meeting at this point to keep another engagement.

Governor Balderston inquired what the next step would be to follow up the Board's request that The Continental Bank and Trust Company provide additional capital to the extent of at least \$1,500,000. He noted that the examination of the bank had now been completed.

Mr. Vest responded that he thought it would be advisable for the bank to receive its copy of the report of examination before additional steps were taken, and that it would also be desirable for the Board to have a few days to consider the report. He said that with Mr. Powell now coming into the case, it would seem well for the Board to have the benefit of Mr. Powell's views regarding any documents initiated in this matter.

It was suggested that the Board approve a dinner at a local hotel on June 5, 1956, at a cost of not more than \$8 per person, in connection with the forthcoming meeting of Counsel for the Federal Reserve Banks to consider legal problems in relation to the Bank Holding Company Act of 1956. Total attendance at the proposed dinner would be in the neighborhood of 35 to 40, including Counsel for the Reserve Banks, available members of the Board, members of the Legal Division, and

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certain other members of the Board's staff interested in holding company matters.

Following a discussion, the dinner was approved unanimously, with the understanding that the cost had not been provided for in the 1956 budget of the Legal Division.

The meeting then adjourned.

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

Memorandum dated May 17, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Elizabeth A. Ulrey as Economist in that Division, with basic salary at the rate of \$6,390 per annum, effective the date she assumes her duties.

Memorandum dated May 22, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that Mary Ann Nichols, currently employed as Clerk-Typist in that Division on a part-time (4-hour day) basis, be placed on a full-time basis, with basic salary at the rate of \$3,260 per annum, effective May 28, 1956.

Memorandum dated May 14, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Josephine M. Spicer, Administrative Clerk in that Division, be accepted effective June 1, 1956.

In addition, Governor Balderston today noted the following memoranda on behalf of the Board:

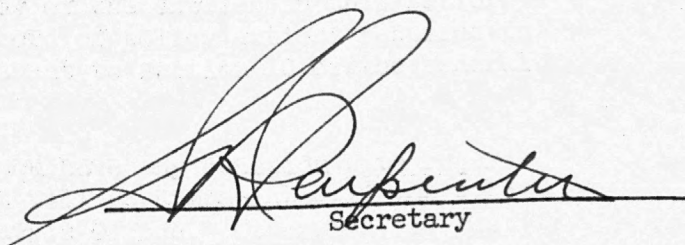
Memorandum dated April 13, 1956, from Mr. Young, Director, Division of Research and Statistics, advising of the retirement of Ruth H. Reehling, Clerk in that Division, under the Federal Reserve Retirement System effective June 1, 1956.

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Memorandum dated April 23, 1956, from Mr. Young, Director, Division of Research and Statistics, advising of the retirement of Harold F. Chapin, Economist in that Division, under the Federal Reserve Retirement System effective June 1, 1956.

Memorandum dated May 1, 1956, from Mr. Bethea, Director, Division of Administrative Services, advising of the retirement of Raymond C. Twomey, Supervisor, Duplicating and Mail Section, in that Division, under the Federal Reserve Retirement System effective June 1, 1956.



Secretary