

Minutes for June 4, 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>M</u>	<u>MS</u>
Gov. Szymczak	<u>                    </u>	x <u>                    </u>
Gov. Vardaman	x <u>                    </u>	<u>                    </u>
Gov. Mills	x <u>                    </u>	<u>                    </u>
Gov. Robertson	<u>                    </u>	x <u>R</u>
Gov. Balderston	x <u>CB</u>	<u>                    </u>
Gov. Shepardson	x <u>                    </u>	<u>                    </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 4, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Vardaman  
 Mr. Mills  
 Mr. Shepardson

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Vest, General Counsel  
 Mr. Dembitz, Assistant Director,  
 Division of Research and Statistics  
 Mr. Hackley, Assistant 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:

Letter to the Board of Directors, Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment by Girard Trust Corn Exchange Bank of a branch at 2944-50 North 22nd Street, and a branch at 427-31 North 63rd Street, Philadelphia, Pennsylvania, provided the two branches are established within one year from the date of this letter and that approval of the Secretary of Banking for the Commonwealth of Pennsylvania is effective at the time the branches are established.

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

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

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland the Board of Governors approves the establishment of a branch in temporary quarters at 9356 Montgomery Road, Montgomery, Ohio, by The Silverton Bank, Silverton, Ohio, provided the branch is established within six months from the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

It is understood that the branch will be removed to permanent quarters in the immediate vicinity at 9409 Montgomery Street, Montgomery, Ohio, upon completion of construction of a new building at that location.

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

Letter to the Board of Directors, County Bank of Santa Cruz, Santa Cruz, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by County Bank of Santa Cruz, Santa Cruz, California, in Boulder Creek, California, provided (a) the branch is established within six months from the date of this letter, and (b) the approval of the Superintendent of Banks of the State of California is effective as of the date the branch is established.

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

There had been circulated to the members of the Board a draft of letter to Mr. Milton Knight, President of The National Bank of Toledo, Toledo, Ohio, prepared in response to Mr. Knight's letter addressed to

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Chairman Martin in which he inquired whether the practice of picking up customers' deposits by automobile or absorbing charges made by Brink's for picking up such deposits would involve an indirect payment of interest on demand deposits under section 19 of the Federal Reserve Act and the Board's Regulation Q, Payment of Interest on Deposits.

Mr. Knight's letter indicated that the practice was growing in the area, that The National Bank of Toledo had not yet engaged in it, but that if it were permissible the bank would be forced to institute the practice to meet competition for accounts of outlying customers. The draft of reply was based upon the Board's general policy of not attempting to make detailed interpretations or rulings as to whether particular practices involve an indirect payment of interest within the meaning of Regulation Q except after consideration of all the circumstances of a particular case as developed through examination of the member bank involved. When the file was in circulation to the members of the Board, Governor Balderston raised a question as to the appropriateness of the proposed reply.

In commenting on the matter, Governor Balderston said he realized that it was difficult for the Board to give a definitive answer to a question of the kind asked by Mr. Knight. Generally speaking, however, a member banker would have reason to anticipate more assistance in interpreting a Board regulation than given in the proposed reply. He had no specific suggestion as to how the reply might be phrased, but

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mentioned that as an alternative to handling the matter by correspondence, the Chairman might call Mr. Knight on the telephone and discuss the subject with him. The fundamental question, he said, seemed to be whether Regulation Q actually was enforceable; if not, perhaps the Board should request the Congress to change the law.

Mr. Vest recalled that similar questions had been raised with the Board within the past few years, that the Board, after considering the problem and obtaining the views of the Federal Reserve Banks and the Federal Advisory Council, concluded that it could not attempt to pass on such questions, and that the Board then sent a letter to the Federal Reserve Banks (S-1577; September 23, 1955) in which it stated that except as to questions involving obvious or flagrant cases or proposals, the Board would continue to follow the practice of refraining from ruling in specific cases unless the facts had been fully developed in the course of examination of the member bank involved.

Mr. Vest then distributed copies of an alternative draft of letter to Mr. Knight which, like the previous draft, was intended to be within the framework of the general policy. It would, however, indicate in somewhat more detail why the Board had concluded that it should adhere to that policy. Furthermore, it would contain a paragraph pointing out that in order to justify the position that any arrangement of the kind referred to by Mr. Knight would involve a payment of interest

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contrary to the provisions of Regulation Q, it would be necessary to establish that the furnishing of the services to a customer without charge resulted in a payment to the customer as compensation for the use of funds on deposit.

There followed a general discussion of the position which should be taken by the Board with regard to questions such as those propounded by Mr. Knight, and the view was expressed that as a matter of general principle it would appear that the Board should be able to offer clarification concerning the provisions of its regulations. Along these lines, it was suggested that inasmuch as Regulation Q was drafted in conformity with the provisions of section 19 of the Federal Reserve Act the ultimate solution might be to consider requesting the Congress to amend the law. On the other hand, it was brought out that at least to a certain extent the law and the Board's regulation tend to be self-enforcing. It was also stated that for the most part member bankers appeared to be aware of the situation and to recognize that the nature of the regulation called for the exercise of good faith and for self-policing on the part of the banks to avoid excesses of competition. This awareness of the situation on the part of the banking community in general was believed to have contributed to holding down the number of requests for interpretation of the regulation in specific cases.

Governor Vardaman stated that he favored the alternative draft of reply to Mr. Knight and that he would be willing to add a sentence

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which would indicate that in the view of the Board it was not the intent of the statute to prohibit an arrangement of the kind described in Mr. Knight's letter.

In a discussion of the possibility of including language such as suggested by Governor Vardaman, Mr. Hackley referred to the Board's letter to the Federal Reserve Banks of September 23, 1955, and said he had reason to believe that the Reserve Banks were responding to inquiries on the basis of that letter. If the Board were to include in the letter to Mr. Knight a statement of the kind mentioned by Governor Vardaman, he suggested that in fairness to all concerned the Board should inform the Federal Reserve Banks and also the several parties who had requested interpretations.

Following consideration of the point brought out by Mr. Hackley, it was the opinion of the Board, in which Governor Vardaman concurred, that it would be undesirable to make a change in the Board's policy except after full discussion of the entire subject. In the circumstances there was agreement with a suggestion by Chairman Martin that there be a further review of the statute and the Board's Regulation Q at a time when all of the members of the Board were present, with a view to deciding whether it would be desirable to submit a recommendation to the Congress for a change in the law.

Accordingly, unanimous approval was given to the alternative draft

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of letter to Mr. Knight, reading as follows, with the understanding that it would be signed by Chairman Martin and that a copy would be sent to the Federal Reserve Bank of Cleveland:

This refers to your letter of May 15, 1956, regarding the question whether the practice of picking up customers' deposits by automobile or of absorbing charges made by Brink's for picking up such deposits involves an indirect payment of interest on demand deposits under the Board's Regulation Q and section 19 of the Federal Reserve Act.

As indicated in Mr. Stetzelberger's letter to you of October 7, 1955, it has been the Board's general policy for many years not to attempt to make detailed interpretations or rulings with respect to whether particular practices involve an indirect payment of interest within the meaning of Regulation Q, except after consideration of all the circumstances of a particular case as developed by examinations of the member bank involved.

This policy has been reviewed on a number of occasions, but the Board has always concluded that with few exceptions it is the most feasible basis for dealing with questions of this kind. In this connection, the same question which you raise has several times been before the Board, and the Board concluded that it should not attempt to give an answer except after consideration of all the facts of a particular case as developed by examinations of the banks.

It may be pointed out, however, that, in order to justify the position that any arrangement of this kind would involve a payment of interest contrary to the provisions of Regulation Q, it would be necessary to establish that the furnishing by a member bank of the services in question without charge to its customer would result in a payment to the customer as compensation for the use of funds on deposit.

The Board appreciates your desire to be informed whether these practices would be consistent with the law but does not feel that it would be justified in departing from its general policy.

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At the meeting on May 24, 1956, preliminary consideration was given to a request from the Federal Reserve Bank of Chicago for authority to prepare preliminary plans for an addition to the head office building. Since Governor Vardaman had indicated a desire to be present when the subject was discussed, it was decided to defer action on the matter until after his return.

Governor Vardaman stated that his question related to whether the Chicago Reserve Bank should be given the requested permission until a decision had been made on the establishment of additional branches in the Seventh Federal Reserve District. It was his opinion that it would be advisable not to grant such permission until a new President of the Reserve Bank had assumed office and the broad questions of policy involved could be discussed with him and the Reserve Bank's directors. He suggested that the matter did not appear to be extremely urgent and that the Board could defer action for 60 or 90 days, at which time the managerial situation at the Bank might have been clarified.

Following a brief discussion based on Governor Vardaman's comments, during which it was suggested that certain elements of the building program seemed to indicate a degree of urgency, it was agreed that the matter should be placed on the agenda for further consideration when Mr. Leonard, Director of the Division of Bank Operations, could be present to review the program in detail.

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There had been sent to the members of the Board copies of a memorandum from the Secretary dated June 1, 1956, submitting a draft of letter proposed to be sent by the Chairman of the Board to the presidents of insurance companies regarding participation in the farm loan survey to be conducted as of June 30, 1956. The draft would inquire of the respective companies whether they would be willing to participate in the survey by answering a questionnaire on farm real estate loans, it being understood that the Department of Agriculture would assume responsibility for processing and tabulating the data.

Governor Shepardson, who had requested that the matter be placed on the agenda for this meeting, made a statement in which he stressed the desirability of obtaining as broad a coverage of the farm credit picture as possible in connection with the forthcoming survey. After pointing out that the Farm Credit Administration was planning a simultaneous survey of Production Credit Association loans, he summarized discussion at the meeting of the National Agriculture Credit Committee in Chicago last week, at which time the question of insurance company participation was raised and there was a favorable reaction. It was suggested, he said, that to expedite the matter the Board of Governors might send a letter to the various insurance companies inviting their participation, and it was understood that the Department of Agriculture would be responsible for the processing of the data if it

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developed that the insurance companies were willing to participate. Subsequently, a representative of the Department of Agriculture submitted a draft of letter in substantially the form of the draft distributed to the members of the Board. The purpose of bringing up the matter at this time, Governor Shepardson said, was to ascertain whether the Board would be favorably disposed to the idea. If so, the draft of letter would be studied further from an editorial standpoint.

Chairman Martin concurred in the view that it would be desirable to have insurance company participation in the farm loan survey. Accordingly, he suggested that the letter be sent to the insurance company presidents when in a form satisfactory to Governor Shepardson.

It was also suggested that Governor Shepardson get in touch with Mr. J. J. O'Leary, of the Life Insurance Association of America, to obtain his views regarding the proposal.

Thereupon, the matter was referred to Governor Shepardson with power to act.

The meeting then adjourned.

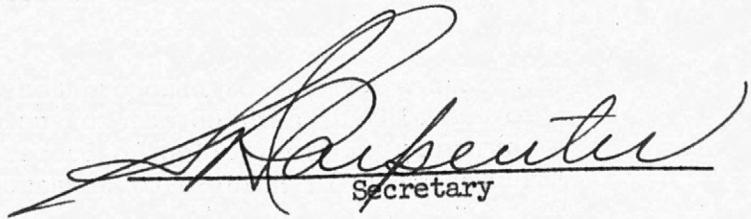
Secretary's Note: Governor Balderston today approved on behalf of the Board the following letter to Mr. Scanlon, Chief Examiner, Federal Reserve Bank of Chicago:

In accordance with the request contained in your letter of May 29, 1956, the Board approves the designation

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of James D. Wakeman, 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