

Minutes for June 15, 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>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Vardaman	x <u>[Signature]</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 15, 1956. The Board met in the Board Room at 2:05 p.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. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Cherry, Legislative Counsel
 Mr. Hersey, Chief, Special Studies
 Section, Division of International
 Finance
 Mr. Furth, Chief, Financial Operations and
 Policy Section, Division of International
 Finance

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, First National Bank in Ronceverte, Ronceverte, West Virginia, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as executor, administrator, guardian of estates, and committee of estates of lunatics, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

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A formal certificate indicating the fiduciary powers which the First National Bank in Ronceverte is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through 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 April 2, 1956, enclosing photostatic copies of an application to organize a national bank at Sarasota, Florida, and requesting a recommendation as to whether or not the application should be approved.

An application by some of the same sponsors to establish a bank in the same area was considered by the Board last year and the facts did not seem to warrant an adverse recommendation provided satisfactory management was obtained. However, a report of investigation made by a representative of the Federal Reserve Bank of Atlanta of the current application contains some information, not previously available, which raises some doubts as to the motives of the sponsors in establishing the bank and since arrangements have not been made for experienced and capable operating management this factor cannot be evaluated satisfactorily. It is reported that the sponsors plan to provide a capital structure of \$1,100,000 instead of \$825,000 shown in the application. This structure would appear to be adequate, if not somewhat excessive, on the basis of the volume of business available. Earnings prospects are not very favorable. It is reported that the area to be served by the bank is experiencing considerable growth but it is questionable whether it has developed sufficiently to support a bank and, therefore, the application would seem to be premature. In view of the unfavorable aspects of this proposal 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.

Following a statement by Governor Vardaman that he had some reservations concerning the proposed recommendation but that he was willing to defer to the judgment of the Federal Reserve Bank of Atlanta, the letter was approved unanimously, with a copy to the Atlanta Reserve Bank.

There were presented telegrams proposed to be sent 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:

San Francisco	June 13
New York	June 14
Cleveland	June 14
Richmond	June 14
Chicago	June 14
St. Louis	June 14
Minneapolis	June 14
Dallas	June 14

Approved unanimously.

Further consideration was given to the request of the Federal Reserve Bank of Chicago for permission to proceed with the preparation of preliminary plans for an addition to the head office building. At a previous meeting of the Board, a decision on the matter was deferred for Governor Vardaman's return because of his interest in the subject.

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Subsequently, action again was deferred until Mr. Leonard could be present and answer certain questions.

At the Board's request, Mr. Leonard summarized the building program, including the property purchases that had been effected and the nature of the proposed construction. He also stated that the proposal had been reviewed by Mr. Persina, Consulting Architect to the Board, who felt that it was excellent from the point of view of land utilization and that the plan also was attractive from the standpoint of the building that would be available upon completion of the program.

Chairman Martin then said that Governor Vardaman had raised a question in previous discussion as to whether it was urgent that the Board act before the new President of the Bank took office and had an opportunity to review the proposal.

Mr. Leonard responded that the urgency of the matter related principally to the fact that the Chicago Bank was cramped for vault space and lacked adequate security court facilities. With regard to office quarters, it appeared that the Bank could get along reasonably well, although additional space would tend to increase the efficiency of certain operations. In response to a question from Governor Vardaman as to what would happen if the Board deferred action for 30 days, Mr. Leonard said that the Chicago Bank had been planning to begin actual construction a year from now and that various plans, including those for termination

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of leases in the purchased properties, were based on that expectation. In addition, the Bank had been advised that if construction was to start in accordance with the proposed schedule, it would be well to place an order for steel so as to obtain a priority on delivery.

There followed a discussion of the effect of authorizing the Chicago Bank to prepare preliminary plans during which Mr. Leonard stated that favorable action on the part of the Board would indicate its agreement with the scope of the proposal in general terms, including the size of the contemplated addition.

Governor Robertson suggested that this raised a question from the standpoint of whether further steps in connection with the program would carry it so far that the new President, when appointed, would be placed in a difficult position if he should have any different judgment.

Governor Vardaman stated that this was why he had interposed an objection when the matter was discussed previously. He continued to feel, he said, that it would be preferable to defer action until the new President assumed office, at which time the Board could discuss the whole program with him in the light of various assumptions, including the possible establishment of additional branches in the Seventh Federal Reserve District.

Governor Mills expressed a somewhat different point of view, stating that while the new President would be the Bank's chief administrative officer, the final responsibility for a building program rested with

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the Bank's Board of Directors. It was difficult for him to see, he said, how a new President would find much ground to differ with the mature judgment of the directors and officers who had been studying the Bank's building requirements for many months.

Mr. Leonard supplemented Governor Mills' comments by pointing out that according to the information submitted by the Chicago Reserve Bank, the directors' Building Committee gave full consideration to several alternatives before making its recommendation to the full Board of Directors.

Following further discussion, Chairman Martin called attention to the fact that Mr. Prall, Chairman of the Chicago Bank, was expected to be in Washington next week. He suggested, therefore, that the Board take that opportunity to discuss the matter with Mr. Prall.

There was unanimous agreement with this suggestion.

During the foregoing discussion Mr. Riefler, Assistant to the Chairman, and Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, entered the room and at its conclusion Mr. Leonard withdrew.

At the meeting on June 7, 1956, consideration was given to a suggestion from the Federal Reserve Bank of New York that the current \$50 million limitation on the amount of bankers' acceptances which the

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Bank may purchase and guarantee for foreign accounts be increased to \$60 million as an interim measure pending determination of the over-all question of continuing the present arrangement for the accommodation of foreign central banks. It was decided at that time to defer action on the interim increase until information had been obtained from the New York Bank with regard to the status of the study that had been requested previously by the Board.

In a memorandum dated June 7, copies of which had been sent to the members of the Board before this meeting, Mr. Hersey stated that the New York Bank expected to complete the study by the end of June. The acceptance holdings of the New York Bank for foreign accounts were reported to continue close to the existing limitation, so that there remained a possibility of embarrassment in relations with other central banks if the Reserve Bank was unable to accept orders that might be received under its standing letter of terms and conditions relating to the opening of accounts for foreign correspondents.

In a discussion of the matter, Governor Vardaman suggested that it might appear inconsistent for the Board to grant an interim increase in the authorization to the New York Bank and then, upon study of the whole problem, discontinue the present arrangement or adjust the limitation downward.

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Chairman Martin expressed the view that the study of the broad problem would not be affected seriously by a decision to grant the interim increase. At present, he pointed out, the New York Bank was in a situation where it might have to tell a foreign correspondent desiring to purchase bankers' acceptances that it could not accept the order, and he doubted whether it was advisable for the New York Bank to be placed in such a position.

Governor Robertson, one of the members of the Board who originally suggested that the New York Bank be requested to study the present arrangement and submit a memorandum to the Board for consideration, likewise expressed the opinion that approval of an increase in the limitation to \$60 million as an interim measure would not affect the principles involved in the final determination of the matter by the Board. He felt, moreover, that as long as the present arrangement was in effect it should be allowed to work smoothly.

Governor Vardaman indicated that on the basis of the views stated by Chairman Martin and Governor Robertson, he would be willing to vote in favor of the interim increase in the authorization.

Thereupon, unanimous approval was given to a letter to Mr. Treiber, First Vice President of the Federal Reserve Bank of New York, reading as follows:

This is in reply to Mr. Sproul's letter of May 22, 1956, requesting an increase in the maximum amount of

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bankers' acceptances that may be purchased with your Bank's guarantee of payment at maturity and held at any one time by your Bank for foreign central banks, including the Bank for International Settlements.

In accordance with your Bank's request, the Board has increased from \$50 million to \$60 million the amount of acceptances that may be purchased and held in accordance with the terms and conditions outlined in the Board's letter of February 9, 1937.

This increase is to be regarded as an interim arrangement, pending the review of the background and reasons for the present arrangement under which your Bank purchases bankers' acceptances for foreign central banks, requested in the Board's letter of May 4, 1956.

At the request of Chairman Martin, Mr. Miller reported on a telephone call which he received yesterday from Mr. William Pincus, Associate General Counsel for the House Committee on Government Operations, who requested a meeting next week to discuss informally the role of the Federal Reserve in the marketing of Government securities. The details of the matter were set forth by Mr. Miller in a memorandum to Mr. Riefler dated June 14, 1956, which has been placed in the Board's files.

Since it appeared that the inquiry was an outgrowth of recent hearings before the Committee concerning the role of certain committees representing commercial banks, mutual savings banks, investment houses, and insurance companies with whom the Treasury confers on Government financing matters, Mr. Cherry summarized developments during the hearings and stated that the evident unfamiliarity of the Committee and its staff with various aspects of Treasury financing procedures no doubt led to the request for information.

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In a discussion which followed, it was suggested that Messrs. Riefler and Miller meet with Mr. Pincus. Some consideration also was given to the possibility of arranging for representatives of the Treasury and the Federal Reserve Bank of New York to accompany them.

At the conclusion of the discussion, Chairman Martin expressed the view that the matter should be treated for the present as a routine request for information. He suggested, therefore, that Messrs. Riefler and Miller be authorized to meet with Mr. Pincus, with the understanding that if any technical questions arose which they were not prepared to discuss, arrangements could be worked out to bring in a representative of the Federal Reserve Bank of New York.

The procedure suggested by Chairman Martin was approved unanimously.

The members of the staff then withdrew and the Board went into executive session.

After the meeting the Secretary was informed that during the executive session Governor Robertson reported that the applications and registrations under the Bank Holding Company Act of 1956 would begin coming in to the Board in volume about the first of August, that it appeared likely that the work could be handled at least for the time being by the Board's present legal staff with the assistance of personnel that could be borrowed from the legal staffs of the Federal Reserve Banks,

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but that he would recommend that Mr. Vest, General Counsel, be authorized to negotiate for the employment of one or more lawyers who have had hearing or trial experience who could be added to the Board's legal staff on a permanent basis as soon as may be necessary.

Governor Robertson's suggestion was approved unanimously and it was understood that Governor Balderston would discuss the matter with Mr. Vest.

The meeting then adjourned.

Secretary's Note: Governor Balderston today approved on behalf of the Board memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following employees in the amounts indicated, effective June 17, 1956:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Robert Solomon, Economist	Research and Statistics	\$9,635	\$10,320
Helen M. Capozio, Printing Clerk	Administrative Services	4,345	4,485
George L. Spencer, Jr., Utility Clerk	Administrative Services	3,925	4,075

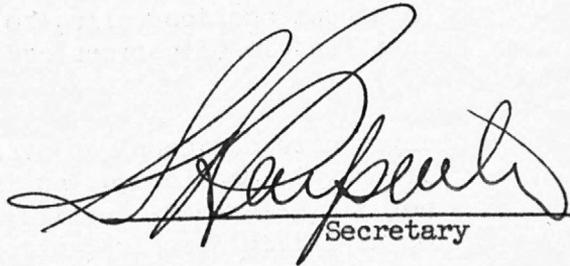
Governor Balderston also approved on behalf of the Board the

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following letter to Mr. Denmark,
Vice President, Federal Reserve
Bank of Atlanta:

In accordance with the request contained in your letter of June 12, 1956, the Board approves the designation of Eric Boysen Hingst as a special assistant examiner for the Federal Reserve Bank of Atlanta for the purpose of participating in the examinations of State member banks only.



Secretary