

Minutes for June 22, 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>(3)</u>	_____
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	_____	x <u>CCB</u>
Gov. Shepardson	x <u>MS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 22, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Boothe, Administrator, Office of Defense Loans
 Mr. Hexter, Assistant General Counsel
 Mr. Chase, Assistant General Counsel
 Mr. Masters, Assistant Director, Division of Examinations
 Mr. Holahan, Supervisory Review Examiner, Division of Examinations
 Mr. Bolling R. Powell, Jr., Special Counsel

At the request of the Board, Mr. Powell made a summary statement of his views (as outlined in a memorandum prepared by him under date of June 20, 1956) with regard to the contemplated proceeding against The Continental Bank and Trust Company, Salt Lake City, Utah. It was understood that a copy of the memorandum would be sent to each of the members of the Board.

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In a further discussion of the matter, Mr. Vest pointed out that the procedure suggested by Mr. Powell would differ slightly from the procedure previously envisaged. Under the Board's regulations, he said, it is provided that the Board may notify a State member bank that its capital, in the judgment of the Board, is inadequate and that it should be brought up to a certain amount within a certain period of time. One method of procedure would be to give that notice and hold a hearing, if necessary, on the question whether the bank should be expelled from membership for noncompliance. The procedure now recommended would be slightly different in that the Board would not at this time give such a notice but would proceed immediately to give a notice of hearing which would determine the factual question of whether the bank's capital was or was not inadequate. Depending on that hearing, it would be possible for the Board to order the bank to increase its capital stock within a designated period of time. At that point it would also be possible for the Board to say that if the bank did not effect the increase it would be expelled from membership. It might be, Mr. Vest said, that as the proceeding developed it would appear that the fact that the bank had not complied with the Board's previous request to increase its capital stock was not a part of the record of the hearing. In that event, it might become necessary to have a stipulation of counsel to that effect, or in some other way to develop the fact so that the record would be complete on that point.

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Mr. Powell confirmed the correctness of Mr. Vest's statement. This proceeding, he said, would involve three questions. First, is the bank's capital adequate or inadequate in relation to the three statutory criteria? Second, if the bank's capital is inadequate, what is the amount of additional capital actually needed to make the capital adequate? Third, what is a reasonable amount of time to be allowed by the Board for Continental to raise that amount of capital? He said it would be his idea that the Board's order would find the capital to be inadequate in a certain amount; and that it would also find that a certain period, say 90 days or six months, would be a reasonable time to raise that amount of additional capital. In the event that Continental failed within that period of time to increase its capital, its stock in the Federal Reserve Bank of San Francisco could be taken up and its membership in the System forfeited. However, at the expiration of the designated period of time, the Board might want to issue a formal "show cause" order demanding that the bank come before the Board and show cause why it had not increased its capital. If the bank should show to the Board that it had made a bona fide effort but that it was impossible to raise the capital, the Board might want to grant an extension of time.

Governor Robertson inquired whether Mr. Powell contemplated two hearings, the first relating solely to the adequacy of the bank's capital

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and the second to determine whether the Board was in a position to expel the bank because of the finding.

Mr. Powell responded that he contemplated only one formal proceeding, at which there would be tried the question of fact as to whether the capital was adequate or inadequate, and if inadequate, by what amount of dollars. Also, how much time would be reasonable in the circumstances to allow Continental to increase its capital by that amount. Then, if the bank failed to increase its capital, the Board would be within its right in expelling the bank from membership, but if the Board wanted to give the bank one final chance it could issue a "show cause" order. That could be a proceeding before the full Board to obviate the necessity for a proceeding before a trial examiner.

Governor Robertson then asked Mr. Powell to spell out the kind of notice that would be sent to the bank in the first instance. In response, Mr. Powell stated that he had drafted such a notice and that the draft was attached to the memorandum of which copies were to be sent to the members of the Board. He added that he had not yet had a chance to go over the draft of notice with the Board's counsel.

With reference to further questions by Governor Robertson relating to the time element, Mr. Powell said he did not think that the Board at this time should determine anything other than its reason to question the adequacy of the bank's capital through a proceeding instituted to

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determine this fact on the record. He said that the length of the hearing was anybody's guess and that in a complicated matter of this kind the Board might require as much as a week to present its case. He also brought out that the question of how much time would be involved if the matter should go to the courts was difficult to judge.

In response to a question from Governor Shepardson as to the procedure that would be involved if Continental at the beginning should bring a proceeding to test the Board's authority, Mr. Powell said that the matter would go direct to a United States District Court. The question would be whether under the Federal Reserve Act there is statutory authority in the Board to expel a member bank for inadequacy of capital once it has become a member of the System. He assumed that the Board's authority would be upheld, but anticipated that such a proceeding might cover a period of as much as a year.

As to the suggested review of the facts on a current basis, Governor Shepardson inquired whether that review could be based on the most recent report of examination of the bank, which was made as of March 12, 1956, or whether another examination would be necessary.

Mr. Powell replied that in his opinion the examination referred to would be recent enough for the purpose, and that if Continental thought that the situation had changed it would be up to the bank to introduce new evidence to show any purported improvements.

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Governor Mills recalled that a request had already been made of the member bank for an increase of \$1.5 million in its capital, which request was submitted for the consideration of the bank's shareholders and rejected. He inquired how the proposed procedure would fit into that background, since it would seem to represent taking a step backward and trying the case of the bank's capital situation against evidence on which reliance had already been placed in making the previous request.

In reply, Mr. Powell pointed out that the previous request was made by the Federal Reserve Bank of San Francisco and was not made directly to the member bank by the Board of Governors. He also said that there was no statement, as part of that request, that if the bank did not raise the additional capital it was going to be expelled from membership. Therefore, there had been no determination that the member bank should be expelled, and that would be a matter that the Board should not prejudge. He interpreted the previous action as an informal attempt to try to persuade the member bank to increase its capital. The bank had rejected that effort so now it was appropriate to institute a formal proceeding and try the case.

With reference to a question from Governor Vardaman as to whether the previous action would be made a part of the record at the formal hearing, Mr. Powell said that he thought this would be brought out during the testimony in the case.

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Governor Vardaman then recalled that from time to time in previous discussions at meetings of the Board, mention had been made of a choice between a proceeding under section 9 of the Federal Reserve Act and a proceeding under section 30 of the Banking Act of 1933. He asked whether Mr. Powell had been consulted on this point and whether he (Mr. Powell) and the Board's counsel were in agreement that it would be preferable to proceed under section 9.

Mr. Vest replied that he had talked to Mr. Powell about this point, but that he did not know whether Mr. Powell had formulated any definite opinion concerning the two possibilities. In a proceeding under section 30, he said, the Board might bring in certain facts regarding practices engaged in by the president of the member bank. However, it seemed doubtful whether there was a violation of law in that situation and, even so, the Board would have to give a warning under section 30. If the Board did succeed in removing the president of the bank from office under section 30, he could continue to be a heavy stockholder and undoubtedly he would wield a great deal of influence in the management of the bank. Therefore, it was the feeling of the Board's staff that a proceeding under section 9 would be preferable.

Mr. Powell said that one advantage of a proceeding under section 30 would be that the Board definitely had that statutory power. However, on the basis of information furnished by the Board's staff it appeared to him that a proceeding under that section, even if successful,

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would not accomplish what the Board desired because, although the proceeding might result in the president of the bank being removed from office, it would not affect his stockholdings in the bank and through them he could still control the policies of the bank very effectively.

Governor Vardaman stated that his purpose in raising the matter was simply that he wanted it to be clear that the question had been discussed.

Following a statement by Mr. Vest that the Division of Examinations was preparing a factual memorandum based on the report of the last examination of The Continental Bank and Trust Company, Chairman Martin said that the Board would wait until the staff was ready to proceed further, that the Board would leave the timing of the matter to the staff, and that when the staff was ready the Board would go forward. In this connection it was also understood that the staff would submit a memorandum containing recommendations as to the members of the staff who would work on investigative or prosecuting functions in connection with the case and those who would be available to assist the Board in connection with any questions which might come before the Board during the course of the proceeding or at its termination.

Messrs. Hexter, Chase, Masters, Holahan, and Powell then withdrew from the meeting.

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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, The Liberty Trust Company, Cumberland, Maryland, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 55 North Liberty Street, Cumberland, Maryland, in connection with the proposed merger of your institution with the Commercial Savings Bank, provided (1) the merger is effected substantially in accordance with the agreement between the parties dated June 5, 1956, (2) the merger and establishment of the branch are completed within six months of the date of this letter, and (3) approval of the State authorities is in effect at the time the transactions are effected.

It is understood that the branch will be in operation only for a temporary period.

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

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

Reference is made to your letter of June 12, 1956, with regard to the request of The Bank of Dinwiddie, Incorporated, McKenney, Virginia, for the Board's approval under Section 24A of the Federal Reserve Act of an additional investment not to exceed \$38,000 in bank premises to cover the cost of a new bank building.

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 not to exceed \$38,000.

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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.

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

Boston	June 19
New York	June 21
Philadelphia	June 21
Kansas City	June 21
Atlanta	June 22

Approved unanimously.

At this point Mr. Thomas withdrew from the meeting and Messrs. Solomon and Hackley, Assistant General Counsel, entered the room.

There had been circulated to the members of the Board a draft of suggested letter to Mr. Howard C. Sheperd, Chairman of the Board of International Banking Corporation, New York, New York, with further reference to previous correspondence concerning the purchase and holding by that Corporation of stock of The County Trust Company, a State member bank at White Plains, New York, and to the meeting of Mr. Sheperd and Mr. Henry Harfield with the Board on May 25, 1956. The draft of letter would refer to the plan presented by the Corporation which was described as designed to meet the Board's request that the Corporation dispose of

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its shares of the member trust company, and it would ask for advice as to whether steps were being taken to carry out that program or any other plan for disposition of the stock. It would also request an estimate as to when the disposition of the stock would be completed.

Governor Mills stated that, as he understood the situation, The First National City Bank of New York was within its legal rights in taking the steps that it proposed to take to spin off its stock of International Banking Corporation according to the proposed plan. If there was any doubt as to such legal right, he said, that doubt would seem to be resolved by the suggested letter, which would give almost unqualified approval to proceed with the plan.

Governor Robertson, who was not present at the meeting on May 25, stated that a reading of the minutes led him to question whether it was necessary at this time to send a letter of the kind proposed.

In response, Mr. Vest said that the staff was faced with the same problem. As he recalled the discussion on May 25, Mr. Sheperd said that he would be glad to have any questions or comments from the Board, but there was no definite commitment to go through with the proposed plan and Mr. Sheperd did not ask specifically for approval of the plan. The matter, therefore, seemed to be left in a situation where the Board had asked that the stock of The County Trust Company be disposed of, International Banking Corporation had suggested a plan for disposal of the stock on which work reportedly was being done, but there

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were represented to be various problems involved and there was no indication on the record as to when the plan was to be accomplished. In the circumstances, Mr. Vest said, it seemed to the staff that perhaps a draft of letter should be put before the Board for discussion. He went on to say that he agreed with the observation of Governor Mills that the suggested letter would in effect indicate no objection on the part of the Board to the proposal. In this connection, he said that, taking the plan step by step, it would be difficult for the Board to disapprove any one step on legal grounds. The Board could only say that it would not approve the organization of the contemplated Edge Act corporation on the grounds that it was part of a plan that the Board did not favor.

There ensued a discussion of the possibility of rephrasing the proposed letter in such a way that it would constitute merely a request for information on developments, following which it was suggested that no letter be sent at this time and that the matter be considered further toward the end of July if nothing further had been heard from Mr. Sheperd or his associates by that time.

There was unanimous agreement with this suggestion.

The next item to be considered was a memorandum from Mr. Vest dated June 20, 1956, copies of which had been sent to the members of

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the Board, regarding a procedural problem which had arisen, in view of the provisions of the Bank Holding Company Act of 1956, in connection with recommendations by the Board to the Comptroller of the Currency as to the chartering of new national banks organized by bank holding companies. As explained more fully in an attached memorandum from Mr. Hackley dated June 11, 1956, the problem concerned the fact that under the Bank Holding Company Act the Board is required to consider certain standards and factors in determining whether to approve applications by bank holding companies for the acquisition of bank stocks. If, before receiving an application under that Act, the Board should make a recommendation to the Comptroller as to whether or not a proposed national bank charter should be granted, the Board in effect would be passing upon substantially the same questions which it would be required by the law to consider if the charter were approved by the Comptroller and the bank holding company should then apply to the Board for approval of the stock acquisition under the Bank Holding Company Act. Mr. Vest's memorandum stated that the subject had been discussed by Governor Robertson, Deputy Comptroller of the Currency Jennings, and staff members of the Board and the Comptroller's Office, and that in accordance with the discussion there had been prepared an attached draft of letter to the Comptroller regarding a request made under existing procedures for a recommendation as to the chartering of certain national banks whose stock would be held by Wisconsin Bankshares

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Corporation, a bank holding company located in Milwaukee, Wisconsin.

The memorandum also stated that if the Board approved the proposed letter and the Comptroller expressed agreement with the suggested procedure (whereby the Board would discontinue the practice of making recommendations on applications for national bank charters when the bank's shares would be held by a bank holding company), it was contemplated that a letter would be written to the Federal Reserve Banks advising them of the understanding on this point.

Following explanatory comments by Mr. Vest, Governor Szymczak inquired as to the necessity for sending a formal communication to the Comptroller of the Currency in view of the fact that the current interagency procedure is based on an informal understanding.

Governor Robertson responded that in the course of discussion of the matter, Mr. Jennings stated that he would like to have something in his files, and that the proposed letter would serve the purpose of complying with that request. Mr. Hackley added that another reason for sending a letter arose out of the fact that the Comptroller had previously written the Board asking for recommendations on three applications for charters for national banks the stock of which would be held by Wisconsin Bankshares Corporation. Therefore, some reply would seem to be in order.

Thereupon, unanimous approval was given to a letter to The Comptroller of the Currency reading as follows, with

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the understanding that if the Comptroller expressed agreement with the procedure suggested therein, an appropriate letter would be sent to the Federal Reserve Banks for their information:

This refers to three letters from Mr. Taylor, Deputy Comptroller of the Currency, all dated March 29, 1956, enclosing photostatic copies of applications to organize two national banks in Milwaukee, Wisconsin, and one national bank in Wauwatosa, Wisconsin, under the respective titles of Southgate National Bank of Milwaukee, Capital National Bank of Milwaukee and Mayfair National Bank of Wauwatosa, and requesting recommendations as to whether or not these applications should be approved.

In each of these three instances, it appears that the principal stockholder of the proposed national bank would be Wisconsin Bankshares Corporation of Milwaukee, Wisconsin, a bank holding company under the recently enacted Bank Holding Company Act of 1956. As you know, under that Act no bank holding company may acquire voting shares of any bank, with certain exceptions not here pertinent, except with the prior approval of the Board of Governors, and the Act prescribes certain procedures to be followed in connection with applications for such prior approval and requires the Board to consider certain factors in determining whether or not to approve such applications. It appears to the Board that if it were to make a recommendation to your Office as to whether or not a proposed national bank charter should be granted in any case in which stock of the new bank would be acquired by a bank holding company, the Board in effect would be passing upon substantially the same questions which it would be required by the Bank Holding Company Act to consider if such charter were approved by your Office and the bank holding company should then apply to the Board for approval pursuant to the Bank Holding Company Act.

In these circumstances, the Board feels that it would be inappropriate for it to express its views to your office with respect to whether or not the applications for the organization of the new national banks mentioned above should be approved.

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For similar reasons, the Board is of the opinion that, pending further experience in this matter, the Board and the Federal Reserve Banks should not in the future undertake to express any views with respect to applications for the organization of new national banks in cases in which it is planned that stock of the proposed bank would be acquired by a bank holding company. It is suggested, therefore, that the present procedure under which your Office requests the views of the Board with respect to the chartering of new national banks be modified so that this would not be done in cases of the kind described. In any such cases, of course, if and when the bank holding company involved files with the Board its application for approval of a proposed acquisition of stock in the new national bank pursuant to the Bank Holding Company Act, the Board will, in accordance with the provisions of that Act, notify your Office with a request for your views and recommendations.

It will be appreciated if you will advise the Board whether you concur in the procedure here suggested.

Under date of May 21, 1956, the Federal Reserve Bank of New York transmitted to the Board a proposal of The First National City Bank of New York, supported by The Chase Manhattan Bank, that the maximum rates of interest payable on certain time deposits be increased, together with the Reserve Bank's analysis of the proposal and its favorable recommendation. The proposal would involve amendment of the Supplement to Regulation Q, Payment of Interest on Deposits, so as to increase from 1 to $1\frac{1}{2}$ per cent the maximum rate of interest payable by a member bank on time deposits having a maturity date of less than 90 days after the date of deposit, and to increase from 2 to $2\frac{1}{2}$ per cent the maximum rate payable on time deposits having a maturity date of less than 6 months and not less

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than 90 days. No change was proposed in the maximum rates ($2\frac{1}{2}$ per cent in each instance) on savings deposits and on time deposits having a maturity date of 6 months or more.

Before this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Young dated June 19, 1956, containing a statement of the basis for the proposal, a summarization of the views of the New York Reserve Bank, and a detailed appraisal of the proposal. The memorandum also stated that the staff of the Federal Deposit Insurance Corporation was studying the matter and that those views should be available shortly, that discussion with the Comptroller of the Currency and the Treasury might also be desirable, and that it was understood informally that the New York State Banking Board probably would adopt the proposal if the Board should approve it.

Chairman Martin stated that the matter had been placed on the agenda for preliminary consideration at this meeting so that Governor Robertson might have an opportunity to express his views before leaving on vacation.

In response, Governor Robertson stated his views substantially as follows:

I could not, if I wanted to, devise arguments why we should not go along with this increase relating to short-term time deposits. There being no strong arguments for not doing it, I do not see how you can justify refraining from going along with the request. I think there is more reason for eliminating any determination of rates below the maximum as of today. The real problem is that the

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change you are making is going to benefit just a few large banks. But the benefit is small, and it is not a major problem. In the circumstances, I would go along with whatever action the Board decides to take.

Governor Mills then made a statement in which he said that although he had no firm conviction that the request for an increase in the maximum rates was not a proper one, there were certain considerations that he thought worthy of review. First, in New York there had been a rather general increase to $2\frac{1}{2}$ per cent in the rate of interest payable on savings deposits. The Board was requested to permit member banks to compound interest on such deposits at the $2\frac{1}{2}$ per cent rate on a monthly basis, but it did not accede to the request. Thereafter, according to available reports, the banks that went to $2\frac{1}{2}$ per cent decided that, having raised the rate, they would not be as generous in their method of computing interest, and they resorted to compounding on a minimum quarterly basis. The mutual savings banks that went to 3 per cent reportedly were finding that rate an additional expense burden and were reducing that burden by computing interest on a minimum semi-annual basis. With that background, if the Board increased from 2 to $2\frac{1}{2}$ per cent the maximum rate payable on time deposits having a maturity date less than 6 months and not less than 90 days, it would be putting such time deposits on a level with genuine thrift deposits. While this might not necessarily mean that the Board should not approve the increase, it would seem that thought should be given to whether corporate and public

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funds on time deposit should be entitled to the same maximum interest rate provisions as thrift accounts.

Second, if the Board should raise from 1 to $1\frac{1}{2}$ per cent the maximum rate on time deposits having a maturity date of less than 90 days, the action could result in funds of business concerns being held as time deposits, which would be tantamount to the payment of interest on demand deposits. While this was of course true even now, the incentive would be greater if the maximum rate of interest were increased.

Third, as brought out in Mr. Young's memorandum, the case for asking a higher ceiling in the rate on certain time deposits rested primarily on a desire to place banks in a position to better retain deposits of public funds and foreign deposits which might find investment in Treasury bills more attractive. Both in England and in the United States there had been a very clear demonstration during the last few months that at a time when monetary and credit policy is directed at credit restriction, there is a reasonable enforcement of that policy if Treasury bill rates are such as to draw deposits into investment in bills, since the loss of deposits constitutes a restrictive influence on lending activities of the commercial banks. Therefore, an increase in the maximum rate on time deposits would involve the risk of losing the benefits of an automatic enforcement of monetary policy under certain conditions.

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Finally, if the maximum rate on time deposits should be increased the time might come when the banks would not be able to cover the interest cost by the usual type of investments. To put it another way, competitive pressures might compel the banks to accept time deposits at a higher interest cost than they could cover with Treasury bills under different conditions than at the present time.

Chairman Martin stated that the points mentioned by Governor Mills were factors that should be considered. He then suggested that further discussion of the matter be deferred until next week when Governor Balderston could be present to state his views.

Turning to the action taken by the Board on June 7, 1956, with reference to the proposal to increase from 5 to 6 per cent the maximum permissible rate of interest on loans made pursuant to Regulation V, Loan Guarantees for Defense Production, Chairman Martin recalled having advised at the meeting on June 14 that he had cleared the proposal with the Treasury. He went on to say that subsequently he also discussed the matter with Mr. Arthur Burns, Chairman of the Council of Economic Advisers, as a representative of the President's special committee on small business problems. It developed that the committee, according to Mr. Burns, was strongly opposed to the increase at this time. In the circumstances, Mr. Burns was advised that it would seem desirable for the Board to have word from the guaranteeing agencies under the V-loan

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program if there was a change in their previously reported position in favor of an increase in the maximum rate. Chairman Martin then asked Mr. Boothe to summarize further developments.

Mr. Boothe stated that a representative of General Services Administration called on the telephone this morning to say that Mr. Burns had talked to the General Services Administrator and had asked him to withdraw the agency's previous letter to the Board on the subject. It was understood that this would be done. Likewise, a representative of the Atomic Energy Commission advised that Mr. Burns had talked in a similar vein to the Chairman of the Commission. It was understood that in this case the previous letter would not be withdrawn, since it merely supported the Defense Department recommendation for an increase in the maximum rate and did not constitute a request from the Commission. At the Defense Department, Secretary Wilson, following a call from Mr. Burns, reportedly sent a message to Assistant Secretary McNeil to the effect that in view of the "tight money situation" he felt that it would be a mistake to increase the maximum rate at this time.

Mr. Boothe said that he did not know what position the Defense Department would now take on the reported plan of the Small Business Administration under which defense procurement agencies would be obliged, upon the request of contractors, to make progress payments up to 90 per cent of any contracts and, in some cases, to make advance payments.

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He understood, however, that there continued to be opposition to the plan within the Defense Department on administrative and policy grounds.

Mr. Boothe also reported having received a telephone call from the Federal Reserve Bank of Boston advising that a New England bank had talked with the Reserve Bank about the possibility of asking the Government to purchase a guaranteed loan because the bank could use the funds to much better advantage.

Chairman Martin stated that these developments meant, in terms of the Board's action on June 7, 1956, that the Board would not act to increase the maximum permissible interest rate on V-loans in view of the strong objections that had been interposed.

There was agreement with this statement, Governor Vardaman adding the comment that the Board's minutes and other records would show quite clearly that the Board had been prepared to increase the maximum rate to 6 per cent in the absence of strong views to the contrary.

Governor Robertson stated that in order to enable the Federal Reserve Banks to participate in the Regional Defense Mobilization Committee phase of Operation Alert 1956, it would be necessary for at least one person at each participating Bank to have security clearance. The procedures to obtain such clearance had been placed in motion, he said, but in view of the time element he would recommend that interim

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security clearance be authorized for the required number of persons at the respective Reserve Banks.

This recommendation was approved unanimously.

With reference to the discussion at the meeting on June 20, 1956, concerning the Board's participation in Operation Alert 1956, Governor Robertson said the record should be corrected to show that operations at the Board's relocation site would not be concluded until noon on Thursday, July 26, rather than on the afternoon of the previous day, as had been stated.

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

Following the meeting, Chairman Martin informed the Secretary's Office that during the executive session the Board approved payment of salary to Mr. Bryan as President of the Federal Reserve Bank of Atlanta at the rate of \$35,000 per year, effective immediately and continuing during the period ending December 31, 1956. This action was taken with the understanding that at an appropriate time arrangements would be made to have Chairman Mitchell of the Atlanta Bank meet with the members of the Board to discuss the situation at that Bank.

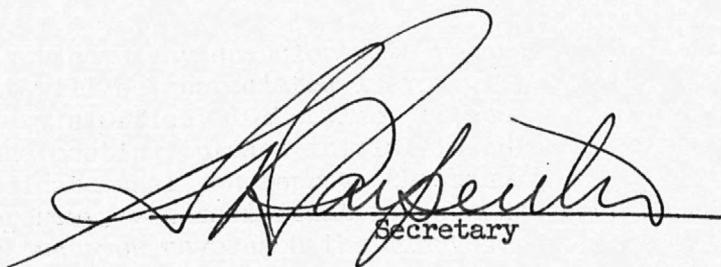
The meeting then adjourned.

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Secretary's Note: In the absence of Governor Balderston, Chairman Martin today approved on behalf of the Board the following letter to Mr. Pondrom, Vice President of the Federal Reserve Bank of Dallas:

In accordance with the request contained in your letter of June 19, 1956, the Board approves, effective June 18, 1956, the appointment of Harold P. Dodd as an assistant examiner for the Federal Reserve Bank of Dallas.



Secretary