

Minutes for June 29, 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>CV</u>	_____
Gov. Mills	x <u>J</u>	_____
Gov. Robertson	_____	x <u>R</u>
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	_____	x <u>LS</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 29, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant 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. Noyes, Adviser, Division of Research and Statistics  
 Mr. Holahan, Supervisory Review Examiner, Division of Examinations  
 Mr. Powell, Special Counsel

Before this meeting there had been sent to the members of the Board copies of a memorandum dated June 25, 1956, from the Division of Examinations summarizing the Division's analysis of the report of examination of The Continental Bank and Trust Company, Salt Lake City, Utah, made as of March 12, 1956.

There had also been sent to the members of the Board copies of a draft of notice of institution of proceeding and of hearing

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therein, proposed for use in the matter of The Continental Bank and Trust Company.

Governor Vardaman called attention to the fact that the proposed notice would authorize the introduction in evidence of reports of examination of the member bank made by the Federal Reserve Bank of San Francisco. He inquired concerning the confidential sections, indicating that he was particularly concerned from the standpoint of precedent.

At the Board's request, Mr. Sloan commented on the nature of the material included in the confidential sections of reports of examination, emphasizing that in such sections the examiner often expresses opinions to his superiors which it would not be suitable to incorporate in the report proper. He also stated that it had been the practice of the Federal Reserve Bank of San Francisco to furnish copies of examination reports, including the confidential section, to the Utah State banking authorities under an agreement pursuant to which the State likewise furnishes the Reserve Bank copies of the State examination reports which include the confidential section.

Mr. Vest said that the Board certainly would not undertake to introduce the confidential sections into the record of the formal hearing. If the respondent should undertake to introduce such material, he felt that the Board's special counsel might want to object on the grounds that

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the confidential section is not a part of the report of examination which would be comprehended by the authority granted in the proposed notice. However, if the trial examiner should take a different view, he did not think that a great deal of harm would be done. In any event, he said, the Board would have to give its permission for the introduction of the examination reports, in proper circumstances, in order to prove its case.

Mr. Powell agreed that there would be no occasion for the Board to offer the confidential sections in evidence. He felt that the point was most likely to come up in the event the respondent could discover some inconsistencies between the examiner's testimony and his comments in the report of examination.

Chairman Martin expressed the view that if it developed that the respondent was aware of the confidential sections of the examination reports and wanted to introduce something from those sections into the testimony there would seem to be no reason why the Board need fear such a move. It could be explained, he pointed out, that in the confidential section the examiner is speaking in the realm of opinion and that this section of the report is prepared only for the benefit of the supervisory authorities.

Governor Vardaman commented that the introduction of material from the confidential sections could, in his opinion, be used to the



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disadvantage of the Board only in connection with a charge of prejudice. The Board, he said, must be prepared to withstand such a charge and show the facts. He hoped, from the standpoint of future examinations, that the confidential sections could be held out of the record, but he did not think the Board would be in a position to object strongly.

Mr. Vest then read a telegram which he had received from the President of the Federal Reserve Bank of San Francisco advising that arrangements had been made to reserve the grand jury room in the United States Post Office Building in Salt Lake City during the month of September for the purpose of the formal hearing. It was understood that certain other facilities in the building also would be made available for working purposes.

It was agreed that Mr. Vest would advise the Reserve Bank that such an arrangement would be satisfactory.

In a further discussion of the proposed notice, one suggestion for a minor change in language was agreed upon. The discussion then turned to a clause proposed to be added to section 2(d) of the notice which would state that neither the names nor the identities of persons indebted to The Continental Bank and Trust Company should be in any way disclosed or introduced in evidence.

Governor Vardaman inquired whether this would handicap the prosecution of the Board's case and Mr. Powell responded by describing

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the method by which he envisaged that the examiner for the Federal Reserve Bank of San Francisco could offer testimony without identifying particular loans or lines of credit. He went on to say that upon cross examination the respondent might want to interrogate the examiner on specific loans, in which event it might be necessary for counsel on both sides and the trial examiner to work out a stipulation under which this phase of the hearing would be conducted. It might be agreed, he said, that at that point the hearing would be closed to the public and would go forward with only the representatives of the member bank and the Board present. In the record the particular credits perhaps could be referred to by assigning a series of numbers or letters. Furthermore, it might be stipulated that this phase of the testimony would be incorporated in a separate volume of the transcript marked "confidential" which would be made available only to the parties at interest and, of course, to the courts if the matter should go to court. Mr. Powell cited as a precedent that in many domestic relations proceedings the court will order the courtroom doors closed and make the hearing private.

Further discussion concerned the paragraph of the proposed notice which would state that in accordance with Rule III(b) of the Board's Rules of Practice for Formal Hearings, the hearing before the trial examiner would be private, attended only by the representatives, counsel, and witnesses of The Continental Bank and Trust Company and of

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the Board of Governors, unless the member bank should make a written request that other persons be permitted to attend or that the hearing be made public, in which event such request would be granted.

At the request of Governor Balderston, Mr. Powell reviewed the language of the pertinent portion of the Rules of Practice. He also pointed out that in correspondence the president of the member bank already had indicated that he desired a public hearing. Mr. Powell said it was his view that if the respondent wanted a public hearing, that request should be granted to avoid any allegation that the respondent was being convicted in a "star chamber" proceeding or was being deprived of due process of law. In response to a statement by Governor Balderston that the effect of a public hearing might be to undermine the confidence of the member bank's depositors, Mr. Powell stated that the problem had been discussed at length and that basically it was a question of policy for the Board to decide. He added that the question could be decided either way without prejudicing the legal sufficiency of the case. In a further comment, Mr. Powell said that if the Board insisted upon a private hearing the respondent might take steps whereby certain parts of the testimony would be publicized. Moreover, if the respondent requested a public hearing and was refused, it would afford some reason to contend that the respondent was being persecuted through a private hearing of the Board of Governors. Mr. Powell also said that even if the Board



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ruled that the hearing was to be private, word that a hearing was being held was almost certain to spread around Salt Lake City and this might tend to undermine confidence in the bank.

After certain possible alternative procedures had been advanced for consideration, it was the consensus that inasmuch as the responsibility for any consequences attendant upon a request that the hearing be made public would rest squarely upon the respondent, the wording of the notice in this respect was appropriate.

Thereupon, upon motion by Governor Vardaman, a notice in the following form was approved by unanimous vote, with the understanding that five copies thereof would be sent to the President of The Continental Bank and Trust Company by registered air mail, return receipt requested, and that copies of the notice also would be sent to the Federal Reserve Bank of San Francisco as a matter of information:

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of:

THE CONTINENTAL BANK AND TRUST COMPANY  
Salt Lake City 10, Utah

NOTICE OF INSTITUTION OF PROCEEDING  
AND OF HEARING THEREIN

1. At a meeting of the Board of Governors of the Federal Reserve System held at its offices in the city of Washington, D. C., on the 29th day of June 1956, the reports of



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examination made by the Federal Reserve Bank of San Francisco of the condition of The Continental Bank and Trust Company of Salt Lake City, Utah, a member bank of the Federal Reserve System, were presented and considered. The Board, having considered the aforesaid reports, which, if correct and true, would appear to indicate that the net capital and surplus funds of The Continental Bank and Trust Company may be inadequate in relation to the character and condition of its assets and to its present and prospective deposit liabilities and other corporate responsibilities, deemed it necessary and appropriate to initiate this proceeding with formal hearing under Section 9 of the Federal Reserve Act (12 U.S.C. Sec. 327), and so ordered, for the purpose of determining:

(a) The adequacy or inadequacy of the net capital stock and surplus of The Continental Bank and Trust Company in relation to the character and condition of its assets and to its present and prospective deposit liabilities and its other corporate responsibilities; and

(b) What net additional amount, if any, of capital funds is needed by The Continental Bank and Trust Company to have an adequate capital structure; and

(c) What is a reasonable period of time to allow The Continental Bank and Trust Company to effect any increase of its capital funds as may be found to be needed to make them adequate before being required by the Board of Governors to surrender its capital stock in the Federal Reserve Bank of San Francisco and to forfeit all its rights and privileges of membership in the Federal Reserve System for failure to do so.

2. Pursuant to this action at the meeting of June 29, 1956, the Board of Governors further ordered:

(a) That a formal, on the record, adjudicatory hearing for the purpose of taking evidence on the questions set forth in paragraph 1 of this notice be held commencing at 10:00 a.m. on September 10, 1956, in room 230, United States Post Office Building, 350 South Main Street, Salt Lake City, Utah.

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(b) That the hearing be held before a trial examiner to be appointed or selected by the Civil Service Commission in accord with the provisions of Section 11 of the Administrative Procedure Act of 1946, as amended (5 U.S.C. Sec. 1010), and that the hearing, and the proceedings following the hearing, be conducted in accord with the applicable requirements of that Act and the Rules of Practice for Formal Hearings, of the Rules of Procedure of the Board of Governors of the Federal Reserve System.

(c) That in accord with Rule III(b) of the aforesaid Rules of Practice, the hearing before the trial examiner will be private, attended only by the representatives, counsel and witnesses of The Continental Bank and Trust Company, and of the Board of Governors of the Federal Reserve System, unless The Continental Bank and Trust Company makes a written request to the Board of Governors that other persons be permitted to attend or that the hearing be made public, in which event such request will be granted.

(d) That authority is granted under Section 8(a) of the Rules of Organization of the Board of Governors of the Federal Reserve System to disclose and introduce as evidence in this proceeding all reports of examinations of The Continental Bank and Trust Company made by examiners of the Federal Reserve Bank of San Francisco: provided, neither the names nor the identities of persons indebted to The Continental Bank and Trust Company shall be in any way disclosed or introduced in evidence.

(e) That formal notice of the institution of this proceeding and of the hearing therein be forthwith served upon The Continental Bank and Trust Company by postage prepaid, registered mail, with return receipt.

By order of the Board of Governors.

(SEAL)

Washington, D. C.  
June 29, 1956

(Signed) S. R. Carpenter  
S. R. Carpenter, Secretary

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Pursuant to the understanding at the meeting on June 22, 1956, there had been sent to the members of the Board copies of a memorandum from Mr. Vest and Mr. Sloan dated June 25, 1956, reading as follows:

The Administrative Procedure Act provides that "No officer, employee or agent engaged in the performance of investigative or prosecuting functions for any agency in any case shall, in that or a factually related case, participate or advise in the decision, recommended decision, or agency review \* \* \* except as witness or counsel in public proceedings".

At the Board meeting on June 22 when the possible proceedings against Continental Bank and Trust Company were being discussed, it was requested that there be submitted to the Board a list of staff members who would be engaged in "investigative or prosecuting functions" in connection with this case, so that there could be an understanding as to which members of the staff would be on the investigative or prosecuting side, and which members would be available to assist the Board in connection with any questions which may come before the Board during the course of or at the termination of the proceeding, including possibly the preparation of such findings and decision as the Board may wish to make.

From the Legal Division, it is suggested that Messrs. Hexter and Chase be designated for investigative or prosecuting functions to be available to consult with and assist Mr. Powell, Special Counsel, as may be necessary and appropriate from time to time. It would also be well to have it understood that if and when circumstances should make it necessary, Mr. Walter Young and Mr. Hooff will also be assigned to the investigative or prosecuting side, with the understanding, however, if they do perform duties of this kind, they would not thereafter be available for duties of the other type.

From the Division of Examinations, it is suggested that Messrs. Masters and Holahan be designated to be available to help in the investigative or prosecuting functions, as witnesses or otherwise, as may be desirable, with the understanding that if circumstances should make it necessary Mr. Sloan



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will also be available for investigative or prosecuting functions. If Mr. Sloan should at any time act in this capacity, however, he would not thereafter be available for duties of the other kind. Other members of the staff of the Division of Examinations do not have any special familiarity with this particular situation and would not be assigned to the investigative or prosecuting functions; but would be available if and when called upon by the Board at a later date to assist the Board in the preparation of any documents that might be necessary.

Unless the Board has objection to the above arrangement, the matter will be handled on this basis.

Following a discussion, unanimous agreement was expressed with the arrangements proposed in the memorandum, subject to any suggestions which Mr. Powell might care to offer after having reviewed the arrangements.

In this connection Governor Vardaman commented that at the meeting on June 22 Mr. Powell seemed to indicate that he would rely rather heavily on testimony regarding capital adequacy which might be presented by representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. He inquired whether there was reason to believe that the testimony of persons representing those agencies would be available.

Mr. Powell and Mr. Vest responded that no definite arrangements had been worked out for such testimony but that the matter would be pursued.

Consideration then was given to a draft of letter to the Chairman of the Federal Deposit Insurance Corporation, which had been



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circulated to the members of the Board, relating to the condition of the Bank of Las Vegas, Las Vegas, Nevada, as disclosed by the report of examination of that bank which was made by the Corporation's examiners as of March 12, 1956, in connection with the bank's application for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System. The application having been declined, advice was requested as to actions contemplated by the Federal Reserve System to restore the bank to an acceptable condition. The draft of reply would state that the San Francisco Reserve Bank had been requested to proceed promptly and vigorously with supervisory actions necessary to improve the condition of the bank.

Governor Vardaman said that he felt this situation should be brought to the attention of Mr. Powell in order that the advisability of a joint proceeding against the Bank of Las Vegas and The Continental Bank and Trust Company might be considered. He suggested that in both cases the situation seemed to arise from the same basic management factors and that he would like to be sure that Mr. Powell had had a full opportunity to study all of the background and details so that no inconsistencies would develop.

In a discussion of the point raised by Governor Vardaman it was stated that the situation with respect to the Bank of Las Vegas had

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been reviewed with Mr. Powell in general terms by members of the Division of Examinations and that steps would be taken to keep Mr. Powell informed concerning developments in regard to that institution which might have a bearing on the proceeding against The Continental Bank and Trust Company. In this connection, Mr. Holahan stated that it had already been suggested to the Federal Reserve Bank of San Francisco that an examination of the Bank of Las Vegas be made at an early date. It was possible, he said, that as a result of that examination some proceeding against the bank or its officers or directors might be recommended.

Thereupon, unanimous approval was given to a letter to The Honorable H. E. Cook, Chairman of the Federal Deposit Insurance Corporation, reading as follows, with the understanding that before the letter was sent it would be cleared with Mr. Powell:

This refers to Mr. DeHority's letter of June 21, 1956, concerning the Bank of Las Vegas, Las Vegas, Nevada, with which was enclosed a photostatic copy of your report of examination of the bank made as of March 12, 1956, for which we thank you.

The examination of the Bank of Las Vegas, made by the Federal Reserve Bank of San Francisco as of December 13, 1955, disclosed an unsatisfactory and deteriorating condition; as a consequence the bank was placed on our list of problem banks requiring special supervisory attention and your Corporation was so advised under date of March 1, 1956. There was pending during this period the bank's notification of intention to withdraw from membership in the Federal Reserve System which notice was filed October 5, 1955, and expired by limitation June 5, 1956. Nevertheless, appropriate

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supervisory contacts with the Bank of Las Vegas were carried on designed to obtain correction of various criticized phases of its operations and to introduce needed improvement into policies and practices.

Subsequent to receipt of notice of the action of your directors on June 14, 1956, in declining the bank's application for deposit insurance as a nonmember bank, we requested the Vice President in charge of examinations at the Federal Reserve Bank of San Francisco to proceed promptly and vigorously with supervisory actions necessary to accomplish our mutual purpose of improving the over-all condition of this bank.

We will advise you promptly of further progress made as a result of the System's efforts in this matter.

Secretary's Note: Mr. Powell having examined the letter and stated that he found no objection to it, the letter was sent under today's date.

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

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. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

The Board of Governors approves the payment of salary to Mr. Edwin P. Farley as an Assistant Cashier at the Oklahoma City Branch, for the period July 1, 1956 through December 31, 1956, at the rate of \$8,000 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of June 22, 1956.

Approved unanimously.



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Telegram to Mr. Crane, Federal Reserve Agent at the Federal Reserve Bank of New York, authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Marine Midland Corporation, Jersey City, New Jersey, entitling such corporation to vote the stock which it owns or controls of The First National Bank of Herkimer, Herkimer, New York, at any time prior to September 1, 1956, to authorize The First National Bank of Herkimer to become a participating bank in the retirement system of Marine Midland Corporation banks. The telegram also contained the following sentence:

In order to eliminate any possible question concerning authority of applicant's officers because resolution set forth in Exhibit C of application was adopted several months before stock of The First National Bank of Herkimer was acquired by Marine Midland Corporation, please request applicant to furnish as soon as practicable two certified copies of resolution of its board of directors or executive committee ratifying all actions taken and authorizing actions to be taken in connection with obtaining permit or permits to vote the stock of the national bank.

Approved unanimously.

Letter to the Board of Directors, The First National Bank of Towanda, Towanda, Pennsylvania, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and, effective upon an increase in the bank's capital stock to not less than \$150,000, grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Pennsylvania, 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.

When advice is received from the office of the Comptroller of the Currency that the capital stock of The First



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National Bank of Towanda has been increased to not less than \$150,000, the minimum capital required by Pennsylvania law for the exercise of trust powers by banks if the population of the borough or township in which the bank is located does not exceed six thousand persons, the Board of Governors will issue and forward a formal certificate evidencing the bank's authority to exercise fiduciary powers.

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

Telegram to Mr. Perrin, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to First Bank Stock Corporation, Minneapolis, Minnesota, entitling such corporation to vote the stock which it owns or controls of Duluth National Bank, Duluth, Minnesota; Northern Minnesota National Bank of Duluth, Duluth, Minnesota; The First National Bank of Hibbing, Hibbing, Minnesota; The First National Bank of Virginia, Virginia, Minnesota; The Worthington National Bank, Worthington, Minnesota; and The Batavian National Bank of La Crosse, La Crosse, Wisconsin, at all meetings of shareholders of such banks, subject to the following condition:

- C. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190).

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

As part of the preparedness measures being undertaken by the Office of Defense Mobilization, the Board of Governors has been asked to furnish ODM's Damage Assessment Center pertinent data with respect to the banking structure of the country. These data will be included in the central records which ODM is assembling covering establishments of all kinds and purposes; they will be available for making

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speedy assessments of the extent of damage sustained, by reason of simulated or actual enemy attacks, by the various segments of the economy in the country as a whole and in critical target areas. The data will also provide a basis on which special damage assessment reports can be prepared in response to specific requests from the Board and other agencies.

The Board is undertaking to collect and assemble the necessary information in consultation with the Comptroller of the Currency and the Federal Deposit Insurance Corporation and with the cooperation of the Federal Reserve Banks and the banking system generally. This letter has been cleared with the Comptroller of the Currency and the FDIC, and you may request the assistance of the District Chief National Examiner and the Supervising FDIC Examiner in compiling the necessary data covering national banks and insured nonmember banks, respectively.

One of the items of information to be assembled is a list of the principal banks and branches located within each of the 73 metropolitan areas (as determined by the Bureau of the Census) regarded as critical target areas. A list and definition of these metropolitan areas is enclosed. The desired list is to include, in addition to the name and location of the banks and branches, the amounts of their deposits, the number of officers and employees, and such other information as might be useful in determining the relative importance of the bank or branch in its metropolitan area, State, and region.

There is, of course, no single measure which would provide an adequate basis of selection. It has been decided, however, that the initial selections should be based primarily on the size of the bank or branch in terms of total deposits. This selection may be expanded from time to time on the basis of number of officers and employees and any other significant characteristics of the bank or branch; it may also be contracted in the light of experience or further considerations.

It will be appreciated if you will select in each of the selected metropolitan areas in your district (a) the largest commercial banks and branches in terms of total

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deposits down to the point where the selected banks and branches account for two-thirds to three-fourths of the total deposits of all commercial banks and branches in the metropolitan area, and (b) the largest mutual savings banks and branches on the same basis, provided there are mutual savings banks of substantial size in operation in the area.

Please add any other banks and branches which, on the basis of such information as you have available or is obtainable from the District Chief National Bank Examiner or the Supervising FDIC Examiner, appear to be key banks or branches because of such considerations as the fact that they are general correspondent banks, heads of area-wide branch systems, etc.

With respect to each selected bank and branch, please assemble and record, in triplicate, the data called for by form FR 175, a copy of which is enclosed and a supply of which is being sent to you under separate cover. When a sufficient number (say half) of these forms have been completed, please send the original and duplicate copies to the Board's Division of Bank Operations, indicating at the same time about how many more might be expected.

While most of the items on form FR 175 are self-explanatory, some explanation seems in order for items 4, 9, 11, and 17.

All of the codes called for by items 4 and 9 will be inserted at the Board's offices. The bank code numbers called for by item 4 are those regularly furnished by the Board's Division of Bank Operations to your Research department; the branch numbers called for by item 9 are furnished upon request.

Item 11 calls for the location of the bank or branch in terms of UTM (Universal Transverse Mercator) grid coordinates. Present indications are that the determination of these coordinates can be made by Government agencies in Washington, either directly from the requested street addresses or by first determining latitudes and longitudes and then computing the UTM grid coordinates. Should it be found necessary to request your Bank's further assistance in determining these coordinates, you will be furnished with an appropriate explanatory memorandum.



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The structural characteristics of bank premises, to be checked in item 17, are those suggested by ODM for the purpose of enabling it better to assess the extent of simulated or actual bomb damage. These characteristics presumably will have to be obtained in most cases from the selected banks and branches.

You may be interested to know that at the time of the last biennial compilation, June 30, 1954, total deposits of all banks and branches in the 73 selected metropolitan areas amounted to 68 per cent of total deposits of all banks in the United States. Below are corresponding data by districts, compiled from the Board's pamphlet, "Distribution of Bank Deposits by Counties and Standard Metropolitan Areas":

<u>Federal Reserve District</u>	Deposits of banks and branches in the 73 selected metropolitan areas (Amount in millions)	Ratio to total deposits of all banks in the <u>District</u>
Boston	\$9,698	69.4
New York	53,528	94.3
Philadelphia	8,288	78.8
Cleveland	9,935	69.6
Richmond	3,684	38.3
Atlanta	2,976	30.0
Chicago	19,511	67.0
St. Louis	4,243	52.1
Minneapolis	1,944	33.4
Kansas City	2,888	31.6
Dallas	4,124	43.3
San Francisco	14,885	65.5

Although it is desirable that the tentative selection of banks begin as soon as practicable, the Board will appreciate any general comments or suggestions you may wish to offer with respect to the suggested basis for selection.

It is contemplated that the proposed record, including the figures of deposits and personnel, will be brought up to



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date annually. It is also contemplated that eventually the record will include codes showing whether the selected bank or branch has a duplicate set of records in a non-target area and whether it has made arrangements to provide banking services at an alternative location in the event of enemy attack.

It is entirely proper to request the selected banks to furnish any information not otherwise available, and in that connection to advise them of the general use to be made of the data.

Any inquiries on this subject may be addressed directly to Mr. Horbett, Associate Director of the Division of Bank Operations.

Approved unanimously.

Memorandum dated June 25, 1956, from Mr. Johnson, Controller, recommending approval of the following requests for estimated expenditures in excess of the 1956 budget for the account classifications indicated:

<u>Division</u>	<u>Account Classification</u>	<u>Excess</u>
Office of the Secretary	Furniture and Equipment	\$350
Personnel Administration	Insurance	6

Approved unanimously.

Letter to Mr. Hall, Federal Reserve Agent, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with the request contained in your letter of June 22, 1956, the Board of Governors approves the appointment of Mr. Lawrence McCracken as Federal Reserve Agent's Representative at the Oklahoma City Branch, effective July 1, 1956, to succeed Mr. Edwin P. Farley.

This approval is given with the understanding that Mr. McCracken will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the

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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 Oklahoma City Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

Mr. McCracken should execute the usual Oath of Office which should be forwarded to the Board of Governors.

Approved unanimously.

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

In view of the information submitted in your letter of June 22, 1956, and the Reserve Bank's favorable recommendation, the Board of Governors extends until October 15, 1956, the time within which the Merchants and Planters Bank, Norfolk, Virginia, may establish an in-town branch on the south side of Little Creek Road, midway between the intersection of Sewell's Point Road and Merritt Street, under the authorization contained in its letter of July 14, 1955.

Approved unanimously.

Letter to Mr. Leedy, Chairman, Conference of Presidents of the Federal Reserve Banks, c/o Federal Reserve Bank of Kansas City, reading as follows:

It is understood that to an increasing extent some, at least, of the Federal Reserve Banks and Branches are receiving requests from coin collectors, dealers, and others for new coins of particular years produced at certain mints. The Board has received a few inquiries or complaints as to the distribution of new coins.

In the circumstances the Board suggests that it might be desirable to have the matter of dealing with such requests and any related questions reviewed from the System point of view.

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The fact that in some cases requests from dealers and others are crossing district lines points up the desirability of the Reserve Banks and Branches following a consistent policy with conforming practices to insure equitable treatment and reduce the possibilities of charges of discrimination.

Because of this and the further facts that the Treasury has certain arrangements for supplying proof sets of coins and new coins to collectors and has issued instructions to the Federal Reserve Banks regarding the distribution of coin, it would seem that participation by representatives of the Bureau of the Mint in the review would be helpful.

Attached for ready reference is a copy of the letter sent today to the Presidents of all of the Federal Reserve Banks.

Approved unanimously, together with the following letter to the Presidents of all Federal Reserve Banks and a letter to Mr. W. H. Brett, Director of the Mint, stating that the clipping which he had transmitted had been brought to the attention of the Board and that the matter was being taken up with the Federal Reserve Banks:

Enclosed for your information is a copy of a clipping from "The Coin Collector", a paper put out by Roy C. Lawrence of Anamosa, Iowa. This was brought to the Board's attention by the Director of the Mint.

The Board is writing to President Leedy, Chairman of the Conference of Presidents, suggesting that it might be desirable to review, from the System point of view, the matter of dealing with requests from coin collectors, dealers, and others, for new coins of particular years produced at certain mints, and any related questions.



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In connection with the foregoing letter to the Federal Reserve Agent at Kansas City approving the appointment of Lawrence McCracken as Federal Reserve Agent's Representative at the Oklahoma City Branch, there was a discussion, at the instance of Governor Balderston, concerning the duties and responsibilities of Assistant and Alternate Assistant Federal Reserve Agents and Federal Reserve Agent's Representatives at the Federal Reserve Banks and branches. The discussion included reference to the qualifications sought in selecting persons for those positions and the procedures followed at the Board in approving such appointments.

At the conclusion of the discussion, during which it was brought out that the subject had been reviewed by the Board previously on various occasions, it was suggested that representatives of Arthur Andersen & Co., who were to accompany the Board's field examining staff on an examination of a Federal Reserve Bank later this year, be requested to look into the procedures currently followed and recommend any changes which might be considered desirable.

There was unanimous agreement with this suggestion.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change

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by those Banks on the dates indicated of the rates of discount and purchase in their existing schedules:

San Francisco	June 27
New York	June 28
Cleveland	June 28
Richmond	June 28
Chicago	June 28
St. Louis	June 28
Minneapolis	June 28
Dallas	June 28

Approved unanimously.

There had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated June 28, 1956, recommending, for reasons stated, that the Board give its prior consent to the proposed retirement on August 1, 1956, by University Bank, Alfred, New York, of its outstanding local preferred stock. The memorandum stated that this bank was to be merged into Citizens National Bank of Wellsville, Wellsville, New York, and that preliminary approval of the merger had been given by the directors of both banks and by the Comptroller of the Currency.

Pursuant to this recommendation, unanimous approval was given to a telegram to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

Reurlet June 27, 1956, Board of Governors concurs in your recommendation and gives prior consent to proposed retirement on August 1, 1956, by University Bank, Alfred, New York, of its \$3,000 par value preferred stock at its retirement value of \$15,000.

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Mr. Sloan then withdrew from the meeting and Messrs. Johnson, Controller, and Director, Division of Personnel Administration, and Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Consideration was given to a letter addressed to Chairman Martin under date of June 25, 1956, by Mr. Arthur F. Burns, Chairman of the Council of Economic Advisers, with further reference to the proposal that the maximum permissible rate of interest on loans made pursuant to Regulation V, Loan Guarantees for Defense Production, be increased from 5 per cent to 6 per cent. In the letter, copies of which had been distributed to the members of the Board prior to this meeting, Mr. Burns stated that he had talked the matter over with members of the Cabinet Committee on Small Business, that it appeared that the heads of the guaranteeing agencies under the V-loan program were not aware that letters had gone from their agencies to the Board expressing views favorable to an increase in the maximum rate, and that he believed that the heads of those agencies or their deputies would soon communicate their views to the Board. The letter then set forth arguments in support of Mr. Burns' own view that it was doubtful whether the maximum rate should be changed at present. It also suggested that the schedule of guarantee fees be reviewed before anything was done to increase the maximum permissible



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interest rate, and the hope was expressed that the Board would initiate such a study promptly.

The matter was discussed from the standpoint of what response should be made to Mr. Burns' letter and what other actions, if any, it would be appropriate for the Board to take.

Governor Mills suggested that the letter should be interpreted to mean that Mr. Burns and the Cabinet Committee on Small Business were attempting to arrive at an understanding of the place of small business in the V-loan program and that they would appreciate a study of the program since its reactivation in 1950 which in particular would shed light on the appropriateness of an adjustment in the schedule of guarantee fees. He felt, therefore, that it might be advisable to prepare an analysis of the program using, in addition to the statistics currently available, data such as loss experience records which would indicate the sufficiency of the accumulated reserves in relation to the size of the program. In any event, he said, such a study would be useful to the Board at a later date if it should wish to take action with respect to rates and fees under the V-loan program.

It was suggested, as another possibility, that copies of the correspondence between Chairman Martin and Mr. Burns might be sent to the Defense Department and the principal guaranteeing agencies with a request for their comments and for their views as to whether a study of

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the whole program would be advisable. It was the view of the Board, however, that such a course should not be followed because it might lead to controversy without any useful purpose having been served. In this connection, reference was made to the fact that under the law governing the V-loan program, the Board rather than the guaranteeing agencies is responsible for the fixing of rates and fees.

Following further discussion, Chairman Martin and Governor Vardaman suggested that a brief acknowledgment be made to Mr. Burns which would point out that the Board was continually working on the V-loan program and would also state that the question of guarantee fees would be reviewed.

There being agreement with this suggestion, unanimous approval was given to a letter from Chairman Martin to Mr. Burns in the following form:

This will acknowledge your letter of June 25 with respect to Regulation V loan rates and guarantee fees.

We are continually working on this program and will review the question of guarantee fees which you indicate needs particular attention.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Johnson, and Sprecher withdrew from the meeting.

The Secretary read a memorandum prepared by the Division of Personnel Administration under date of June 28, 1956, pursuant to the

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request made at the meeting of the Board on June 27. The memorandum set forth the retirement allowances that Mr. Myrick, Assistant Director, Division of Bank Operations, would be entitled to on July 1 and October 1, 1956, if he would retire under disability or under normal retirement and attached a list of other employees of the Board who had been granted extended sick leave. The memorandum stated that in view of the precedents set by these prior cases and Mr. Myrick's long years of service it would not seem inconsistent to advance at least 90 days of sick leave, and that the Legal Division had advised that there was no legal reason why the Board should not take this action if in its judgment it was a desirable one, although Mr. Vest suggested the Board should keep in mind the desirability of making as few exceptions to the usual Government policies as practicable.

After a brief discussion of the matter in the light of this additional information, it was voted unanimously that the advance of sick leave granted to Mr. Myrick by Governor Balderston under date of June 25, 1956 would extend through September 30, 1956, and that the matter would be considered again before the expiration of that period to determine whether a further extension of sick leave should be granted.

Messrs. Johnson and Sprecher then withdrew from the meeting and Messrs. Kenyon, Vest, Young, and Noyes reentered the room. Messrs. Leonard, Director, Division of Bank Operations, Bethea, Director,



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Division of Administrative Services, and Freutel, Assistant Vice President of the Federal Reserve Bank of St. Louis (currently assisting the Board on defense planning matters) also entered the room at this point.

Chairman Martin stated that yesterday he and the heads of other Government departments and agencies attended a briefing session in preparation for Operation Alert 1956, that the briefing was on the basis of a document prepared by the Office of Defense Mobilization, and that comments and suggestions on the document were requested from all of the participating agencies by the close of business next Tuesday.

At the Chairman's request, Messrs. Leonard and Noyes summarized portions of the briefing document pertinent to the Board's operations. This included reference to the reports that would be required of the Board during and following Operation Alert 1956. In response to questions, they indicated that the problems under the assumed conditions of the exercise were phrased in such general terms that it was difficult to offer any precise evaluation at this time.

In view of the request for comment on the briefing document and in view of Chairman Martin's prospective absence, it was stated that, if agreeable to the Board, a letter to the Director of Defense Mobilization would be prepared for Vice Chairman Balderston's signature after the briefing document had been studied more carefully with a view to transmitting a reply early next week.

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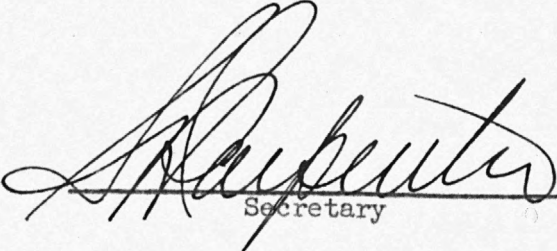
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There was agreement that this procedure should be followed, and it was understood that copies of the briefing document would be made available for review to the members of the Board who might wish to see it.

In view of the fact that only two members of the Board (Governors Balderston and Szymczak) were to be present next week, it was suggested that they be authorized to approve items of a routine nature on behalf of the Board during that period, with the understanding that the actions taken would be subject to ratification at the next subsequent meeting when a quorum of the Board was present.

This suggestion was approved unanimously.

The meeting then adjourned.

  
Secretary