

Minutes for July 26, 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>WM</u>
Gov. Szymczak	_____	x <u>MS</u>
Gov. Vardaman	x <u>V</u>	_____
Gov. Mills	x _____	_____
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 Thursday, July 26, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Vest, General Counsel  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Johnson, Controller, and Director, Division of Personnel Administration

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. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

Reference is made to the Board's letter of March 23, 1955, concerning persons authorized to sign and countersign checks drawn against the Board's General Fund and Payroll Fund accounts.

Miss S. T. Oros has been authorized to countersign as "Authorized Signer." Accordingly, until further notice, it will be appreciated if you will honor checks drawn against the Board's General Fund and Payroll Fund accounts when signed by Mr. S. H. Bass, Disbursing Officer; Miss J. E. Lally, Deputy Disbursing Officer; or Mr. John Kakalec, Authorized Signer; and countersigned by Mr. E. J. Johnson, Controller; Mr. M. B. Daniels, Assistant Controller; Mr. W. A. Pollard, Authorized Signer; or Miss S. T. Oros, Authorized Signer.

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You already have on file specimen manual and plate signatures for the persons named above.

Approved unanimously.

Telegram to Mr. Exter, Vice President, Federal Reserve Bank of New York, reading as follows:

Your wire July 19. Board approves the opening and maintenance of an account on your books in the name of the Banque Centrale de Syrie, subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments.

It is understood that you will in due course offer participation in this account to other Federal Reserve Banks.

Approved unanimously.

Letter to Mr. Fulton, President, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with your letter of July 13, 1956, the Board of Governors approves the establishment of the following grade limits to be applicable to the Bank's employees assigned to its Athens Record Center, Athens, Ohio, effective August 1, 1956.

<u>Grade</u>	<u>Minimum</u>	<u>Maximum</u>
Grade 1	\$2,158	\$2,782
Grade 2	2,522	3,432

It is understood that any employee whose salary falls below the minimum of his grade will be brought within the appropriate range no later than November 1, 1956.

Approved unanimously.

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

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Reference is made to your letter of July 16, 1956, submitting the request of the Citizens Bank of Poquoson, Virginia, for approval under the provisions of Section 24A of the Federal Reserve Act of an additional investment of \$65,000 in bank premises.

On April 6, 1956, the Board of Governors approved the additional investment by the bank of not to exceed \$50,000 for the purpose of erecting a new bank building, which amount also included the cost of the land on which the new building is to be located. It now appears that an additional \$15,000 may be needed for this purpose inasmuch as the cost of construction will exceed the original estimate.

After considering the information submitted the Board of Governors approves the investment of not to exceed \$65,000 in a new building to be occupied by the bank which amount includes the cost of the land on which the new building will be located.

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

Approved unanimously.

Telegram to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

As recommended your letter of July 17, 1956, Board extends to August 28, 1956, time within which First State Bank, Fremont, Nebraska, may accomplish membership.

Approved unanimously.

Letter to the Board of Directors, First State Bank of Salina, Salina, Utah, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in Kanab, Utah, by the First State Bank of Salina, Salina, Utah, provided (a) capital

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is increased to not less than \$150,000 to meet Federal Statutory requirements, (b) the branch is established within one year from the date of this letter, and (c) the approval of the Utah State Bank Commissioner is effective at the time the branch is established.

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

Order of the Board of Governors reading as follows:

BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM

In the Matter of the Application  
of First Bank Stock Corporation  
for Approval of Acquisition of  
Voting Shares of First State Bank  
of Babbitt, Babbitt, Minnesota

ORDER

The above matter having come before the Board on the application of First Bank Stock Corporation, Minneapolis, Minnesota, dated May 17, 1956, filed pursuant to the provisions of Section 3(a)(2) of the Bank Holding Company Act of 1956, for prior approval of acquisition by First Bank Stock Corporation of direct ownership of 470 shares of a total of 500 voting shares of the proposed First State Bank of Babbitt, Babbitt, Minnesota, and it appearing after due consideration thereof in the light of the factors enumerated in Section 3(c) of the Bank Holding Company Act of 1956 that such application should be granted,

IT IS HEREBY ORDERED that the said application be and hereby is granted and the acquisition by First Bank Stock Corporation of 470 voting shares of the First State

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Bank of Babbitt is hereby approved, provided that such acquisition is completed within six months from the date hereof.

By order of the Board.

(signed) S. R. Carpenter  
Secretary

(Seal)

Dated:

July 26, 1956

Approved unanimously, for transmittal to First Bank Stock Corporation through the Federal Reserve Bank of Minneapolis, with a copy to the Commissioner of Banks for the State of Minnesota.

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

This refers to the System review of employee relations expenses, which was made at the suggestion of the Board and which was discussed at the May 1956 meeting of the Conference of Presidents.

The Board agrees with the conclusions of the Conference (1) that the objectives of the employee relations programs at the Reserve Banks were adequately stated in the Coleman Committee Report of July 17, 1953, (2) that it is the responsibility of each Bank under the general supervision of the Board to appraise its own situation in the light of community practices and other factors and to determine a desirable course, (3) that inter-Bank comparisons of per capita costs can be useful as a caution signal indicating the need for special consideration, and (4) that it would be well for each Bank to re-examine its employee relations program to determine anew the appropriateness of its various activities.

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The Board assumes that the re-evaluation of these programs is already under way and that the results will be reflected in the 1957 budgets.

Approved unanimously.

Reference was made to a draft of letter to the Comptroller of the Currency, which had been circulated to the members of the Board, stating that, for reasons mentioned, the Board would not feel justified in recommending approval of an application to organize a national bank in Point Comfort, Texas. When the file was in circulation, Governor Vardaman indicated that he felt a favorable recommendation was warranted. Governor Robertson indicated that he also would favor approval of the application provided the Comptroller granted a charter to a national bank proposed to be organized in Port Lavaca, Texas, a nearby community. The Board had previously submitted a favorable recommendation with regard to the proposed national bank in Port Lavaca and it was understood that the application was being held in abeyance pending investigation of the application to organize a national bank in Point Comfort. The latter bank would be controlled by the interests that now operate the only bank in Port Lavaca.

Governor Vardaman said that he did not see on what grounds the Board would be justified in recommending against approval of the proposed national bank in Point Comfort. After commenting that management and capital factors appeared to be satisfactory, he went on to say that he did not think an adverse recommendation would be warranted

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solely on the grounds of inferior earnings prospects. It was his view that the residents of Point Comfort were entitled to a banking facility and that if a group wished to run the risk of establishing a bank in that community, a charter should be granted.

Governor Robertson described the town of Point Comfort as being primarily dependent upon one industry and said there appeared to be considerable doubt that a bank could operate profitably. He went on to say, however, that if the application for a second bank in Port Lavaca should be approved by the Comptroller of the Currency, so as to provide banking competition in that city, he would favor approving the application for a charter in Point Comfort. On the other hand, if the Point Comfort application should be granted and the Port Lavaca application turned down, there would be an absence of competition in the two communities.

Governor Shepardson commented on the distance between the two cities by various routes, including the causeway which had appreciably reduced the mileage. He also commented on industrial factors which would tend to reduce the growth prospects of Point Comfort. In all the circumstances, he was inclined to agree with the approach suggested by Governor Robertson.

Governor Mills stated that he would prefer the letter as drafted on the basis that it was questionable whether Point Comfort



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would be able to support a bank. He said that he had much sympathy with the general philosophy of Governor Vardaman in such matters but that when the ability of a community to support a bank was open to as much question as in this case, he felt it would be out of line with the Board's supervisory responsibilities to recommend the granting of a charter.

Governor Balderston stated that although he leaned toward the point of view expressed by Governor Mills, he would have no strong objection to a letter phrased along the lines proposed by Governor Robertson.

Following further discussion of the situation, Governors Vardaman and Mills indicated that, with their views a matter of record, they would be willing to concur in a letter of the type suggested by Governor Robertson. As a general rule, however, they felt it was preferable for the Board to make a recommendation which was unconditional; that is, a recommendation not conditioned upon action which might be taken on some other application or request.

At the conclusion of the discussion, it was understood that a revised draft of letter would be prepared for consideration at the meeting of the Board tomorrow.

Mr. Molony stated that in the absence of the members of the Board, he received a telephone call yesterday from Senator O'Mahoney

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of Wyoming, who discussed a situation involving an automobile dealer in Waltham, Massachusetts. It appeared that several months ago the dealer received a loan from the Small Business Administration in which a 10 per cent participation was taken by the Newton-Waltham Bank and Trust Company and that the bank had now indicated that it did not wish to renew the arrangement. Senator O'Mahoney stated that the dealer had attempted unsuccessfully to obtain financing elsewhere and also referred to the fact that control of the Newton-Waltham Bank and Trust Company is held by Bay State Corporation, a bank holding company affiliate. He appeared to feel that the situation suggested a lack of banking competition and that it therefore had some pertinence to pending bank merger legislation. It was the Senator's suggestion that in the absence of the Chairman of the Board, the Vice Chairman might contact the trust company and discuss the matter.

Mr. Molony went on to say that when Governor Balderston returned to Washington yesterday from the Board's relocation site, the matter was discussed with him. Senator O'Mahoney's office then was advised that Governor Balderston had been called to a meeting at the White House to review Operation Alert 1956 but that the matter would be looked into and that the Senator would be contacted at the earliest opportunity.

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In summarizing information now available, Governor Balderston stated that control of the trust company was acquired by the "Bay State" interests in 1928, that there are several competing banks in the Waltham area, and that the automobile dealer's credit-worthiness appeared doubtful. In all the circumstances, it seemed quite clear that the inability of the dealer to obtain financing resulted from factors other than those associated with a lack of banking competition.

It was suggested that Governor Balderston explain to Senator O'Mahoney, without going into the particular case, why it would be unsound for a bank supervisory agency to indicate to a bank that it should or should not extend a specific credit. It was further suggested that he refer to the availability of several sources of bank credit in the Waltham area and say that in the Board's view the situation that had arisen had no relationship to the bank merger question.

There was unanimous agreement  
that the matter should be handled  
in the manner suggested.

Governor Balderston made an informal report on the meeting at the White House yesterday which he attended, along with representatives of 41 other agencies, to review Operation Alert 1956. He brought out particularly that the comments at the meeting suggested a need for additional advance planning on the part of the respective Government agencies. In this connection, it was suggested by Governor Shepardson

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that it would be advisable for the Board to review and analyze the emergency planning problems in its field in order to reach a firm position which might be stated in further discussions with other agencies. Governor Robertson stated the Board's staff had been instructed to begin immediately reviewing the entire exercise to develop the problems that were encountered and that a final evaluation report on the exercise was required to be submitted to the Office of Defense Mobilization by the end of next month. There was agreement with a suggestion that during the week of August 6, following Chairman Martin's return, the Board have a preliminary discussion of emergency planning problems, including those in the area of economic and credit policy and those relating to internal operations at the Board's relocation site.

Mr. Vest referred to the Board's recent request of the Civil Service Commission for assistance in obtaining a hearing examiner for the formal hearing in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, scheduled to begin on September 10, 1956. He said that apparently the Civil Service Commission had been in touch with the Federal Power Commission, for a representative of the latter agency called on the telephone with regard to making available the services of Mr. Emery J. Woodall as hearing examiner. It appeared that because of previous commitments the Federal Power

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Commission could not release Mr. Woodall for this purpose until the first of October. Mr. Vest suggested that he be authorized to advise the Federal Power Commission that if it could make Mr. Woodall available on October 1, that would be satisfactory to the Board. Then, after definite advice had been received, the Board would issue an order postponing the date of the hearing.

Following a discussion during which it was suggested that Mr. Vest take such steps as were feasible to assure the availability of a substitute hearing examiner, if necessary, it was agreed unanimously that the procedure proposed by Mr. Vest should be followed.

The meeting then adjourned.

Secretary's Note: On July 24, 1956, Governor Balderston approved the following items on behalf of the Board:

Memorandum dated July 17, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Juanita S. Carpenter as Secretary in that Division, with basic salary at the rate of \$4,075 per annum, effective the date she assumes her duties.

Memorandum dated July 19, 1956, from Mr. Sloan, Director, Division of Examinations, recommending the transfer of Peggy Ann Long, Clerk-Stenographer in the Division of Personnel Administration, to the Division of Examinations as Secretary, with no change in her present basic salary at the rate of \$3,670 per annum, effective July 23, 1956.

Memorandum dated July 16, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the transfer of Beverly

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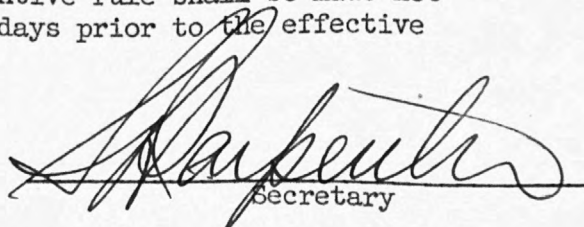
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Ann Brookman, Clerk-Stenographer in the Division of Personnel Administration, to the Division of Research and Statistics as Clerk-Stenographer, with no change in her present basic salary at the rate of \$3,415 per annum, effective July 28, 1956.

Memorandum dated July 16, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the transfer of Joyce Ann Meyer, Clerk-Stenographer in the Division of Personnel Administration, to the Division of Research and Statistics as Clerk-Stenographer, with no change in her present basic salary at the rate of \$3,415 per annum, effective July 28, 1956.

Memorandum dated July 16, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the transfer of Kay Evelyn Roberts, Clerk-Stenographer in the Division of Personnel Administration, to the Division of Research and Statistics as Clerk-Stenographer, with no change in her present basic salary at the rate of \$3,260 per annum, effective July 16, 1956.

Secretary's Note: Advice having been received from the Bureau of the Budget by letter dated July 23, 1956, that the record keeping and reporting requirements contained in Regulation Y, Bank Holding Companies, had been approved by the Bureau in accordance with the Federal Reports Act of 1942, Regulation Y was made effective September 1, 1956, pursuant to the action taken by the Board on July 19, 1956, approving the adoption of the regulation upon receipt of advice from the Budget Bureau pertaining to the record keeping and reporting requirements. The effective date was selected in the light of the provision of the Administrative Procedure Act requiring that the publication of any substantive rule shall be made not less than 30 days prior to the effective date thereof.

  
Secretary