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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 3 Agreement to approve a discount rate of 3 per cent (rather than 2-3/4 per cent) for any Federal Reserve Banks that might advise the Board of the establishment of the higher rate.

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.

Chm. Martin
Gov. Szymczak
Gov. Vardaman
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

A

B


Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 24, 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. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Horbett, Associate Director, Division of Bank Operations
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Molony, Special Assistant to the Board
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics

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, Camden Trust Company, Camden, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at 2608-14 Carman Street, Camden, New Jersey, by the Camden Trust Company. Approved unanimously, for transmittal through the Federal Reserve Bank of Philadelphia.
Letter to The Honorable, The Comptroller of the Currency, Washington, D. C., reading as follows:

Under the Bank Holding Company Act of 1956, this Board, in passing upon any application for the Board's approval of certain transactions under that Act, is required to give notice to you if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking association and to allow 30 days within which your views and recommendations may be submitted.

In accordance with this requirement of the law, you are advised that Marine Midland Corporation, Buffalo, New York, a bank holding company, has made application to this Board pursuant to the Bank Holding Company Act of 1956 for the prior approval by the Board of the acquisition of 2,000 shares of the capital stock of The Lake Shore National Bank of Dunkirk, Dunkirk, New York. There is enclosed for your information a copy of the application.

It will be appreciated if you will advise the Board in writing of your views and recommendations with respect to this application.

The date of receipt of this letter by your office must be made a part of the Board’s records with respect to the application. Therefore, it will be appreciated if the enclosed copy of the letter is signed and returned with the date of receipt indicated thereon.

Approved unanimously, with a copy to the Federal Reserve Bank of New York, this action being taken with the understanding that for the time being letters of this kind would continue to be submitted to the Board for approval in order to keep the members of the Board informed of developments under the Bank Holding Company Act of 1956, and with the further understanding that in the future such letters would be prepared in a form reflecting a suggestion made by Governor Shepardson.
Memorandum dated August 15, 1956, from Mr. Young, Director, Division of Research and Statistics, requesting that authorization be granted to the following members of that Division to attend, at Board expense, the annual meeting of the American Statistical Association to be held in Detroit, Michigan, September 7-10, 1956:

Ralph A. Young
Frank R. Garfield
Kenneth B. Williams
Homer Jones
Louis Weiner
Stanley Sigel
Murray Altmann
Maurice H. Schwartz

Approved unanimously.

There were presented telegrams proposed to be sent to the Federal Reserve Banks of San Francisco and Minneapolis approving the establishment without change on August 22 and 23, 1956, respectively, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

In this connection it was understood that the Secretary would inform the Federal Reserve Banks of Kansas City and Dallas by telephone that response would not be made by the Board in the usual manner to their telegrams of August 23 advising of the re-establishment of existing rates of discount and purchase.

With reference to the action of the Board yesterday approving a discount rate of 3 per cent for the Federal Reserve Banks of New York, Philadelphia, Richmond, and Chicago, Chairman Martin suggested that if advice was received from other Federal Reserve Banks of the establishment of rates of discount and purchase in line with this pattern, the Secretary be authorized to advise such Banks that the Board approved the rates.

This suggestion was approved unanimously, with the
understanding that the usual procedures would be followed with respect to the issuance of a press statement, notification of all Federal Reserve Banks and branches, and the transmittal of a notice to the Federal Register.

Secretary's Note: Pursuant to this action, the following telegram was sent later in the day to Mr. Thompson, First Vice President of the Federal Reserve Bank of Cleveland:

Reurtel today. Board approves effective August 27, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3-1/2 per cent to 5-1/2 per cent on direct advances under Section 13b to industrial or commercial organizations, including advances made in participation with other financing institutions. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EDST today for immediate release.

There had been sent to the members of the Board prior to this meeting a draft of a proposed letter to the Acting Secretary of the Federal Advisory Council suggesting topics for discussion at the next meeting of the Council and at the joint meeting of the Council and the Board. Certain changes in the draft having been suggested by Governor Vardaman, copies of an alternative draft reflecting these changes also were sent to the members of the Board.
In commenting on the alternative draft, Governor Vardaman stated that the principal intent was to set out more specifically the matters on which the Board would like to have the Council's views.

Governor Robertson said that while he was agreeable to the alternative draft, he felt that one question stated more precisely in the original draft, namely, the extent to which corporations planning capital market financing had resorted to bank sources to meet their needs because of adverse market conditions, should be included in the letter to the Council.

There being agreement with Governor Robertson's suggestion, unanimous approval was given to a letter to Mr. William J. Korsvik, Acting Secretary, Federal Advisory Council, reading as follows, with a copy to Mr. Robert V. Fleming, President of the Council:

In response to the request contained in your letter of August 17 the Board would like to propose (in addition to the two items referred to in its letters of July 16 and 23, 1956) the following topics for discussion by the Council and at the joint meeting of the Council and the Board on September 18.

1. What are the views of the Council with respect to the prospective business situation for the balance of the year?

2. In view of the tax deductibility of interest costs, are higher interest rates operating as an effective deterrent on demands for bank credit?

3. Have bank credit demands for longer-term financing needs been increasing relative to demands for short-term purposes with adverse effects on the liquidity of bank loan and investment portfolios? To what extent have corporations, planning capital market financing but deferring such financing because of adverse market conditions or outlook,
resorted to bank sources to provide their demands, other than temporarily?

4. Has the total credit demand been so large that big and preferred borrowers have had their demands more readily satisfied than the legitimate demands of smaller business customers?

5. What are the current tendencies with regard to bank activities in consumer financing, namely, with respect to volume, down payments, and maturities?

6. What are the current tendencies with regard to bank takings of residential construction loans and mortgages?

7. Are banks generally active in other types of construction lending?

8. What are the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for now or during the period before the next meeting of the Council?

9. The Board of Governors has been asked by the Senate Banking and Currency Committee to submit to the Committee by the first week in October recommendations as to desirable changes in the Federal Reserve Act and other related statutes. The Board would be pleased to have any comments that the Council might wish to make in this connection.

As requested in your letter, the Board Room will be available to the Council on Monday afternoon, September 17, and the usual arrangements have been made for luncheon for fourteen in the Blue Room on Tuesday, September 18. The items referred to in the last two paragraphs of your letter will be sent to you at the Mayflower Hotel on Friday, September 14.

Question was raised as to when the Board wished to schedule further consideration of the proposed revision of the Regulation K, Banking
Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act.

In a discussion of the matter, Governor Robertson inquired whether further consideration of the revision of the regulation should be deferred until the Board had considered the suggestions for legislative changes which it might wish to submit to the committee headed by Senator Robertson in connection with that committee's study of the Federal statutes relating to financial institutions and credit. With reference to the study, he said that a staff member of the committee recently informed the Board's Legislative Counsel that the committee hoped to receive suggestions from the various interested Government agencies by the first of October, that the committee planned to hold hearings on November 9 and 10 at which the respective agencies would present their views on the suggestions they had made, and that in December the agencies and other parties would be expected to testify on the suggestions which had been received by the committee from all sources. The committee then hoped to present a bill at the beginning of 1957.

In response to a question, Mr. Solomon stated that the Legal Division was planning to distribute to the members of the Board early next week a memorandum presenting a list of topics for the Board's consideration. This memorandum, he said, would include a variety of items which had come to the attention of the staff, including items which the staff would not necessarily recommend be submitted to the Robertson committee.
Chairman Martin commented that it would be helpful if the memorandum could indicate which of the suggestions were recommended by the staff, and Mr. Solomon responded that the memorandum would be prepared with the Chairman's comment in mind.

Returning to the question of further consideration of the proposed revision of Regulation K, Governor Szymczak expressed the opinion that it would not be necessary to defer such consideration pending the submission of suggestions to the Robertson committee. He felt that the need for any legislative changes in the field covered by Regulation K would become more clear through experience in operating under a revised regulation.

The Chairman then suggested that discussion of the proposed revision of Regulation K be scheduled for a meeting of the Board on Thursday, September 13, 1956, and agreement was expressed with this suggestion.

Pursuant to the understanding at the meeting on August 22, 1956, there had been sent to the members of the Board prior to this meeting copies of a memorandum from Mr. Thomas, also dated August 22, discussing certain questions involved in fixing maximum rates of interest on time deposits. The memorandum presented the reasons for a regulation such as the Board's Regulation Q, Payment of Interest on Deposits, particularly the provisions thereof relating to limitations on the interest payable on time and savings deposits. It also set forth factors to be considered in the fixing of maximum rates on time and savings deposits, including the relationship of such rates to rates on other investment media, to bank
earnings, expenses, and capital, to demand deposits, and to general monetary policies. After stating conclusions drawn from the analysis of the purposes of and principles that might govern the regulation of interest on time deposits, the memorandum set forth suggested policy guides if it should be deemed advisable to have some flexibility in the maximum interest rates in response to variations in the general level of interest rates.

At this meeting there were distributed copies of a statement showing the maximum rates on time and savings deposits now prescribed by Regulation Q, changes in those maxima which might be made should a recent recommendation of The Chase Manhattan Bank of New York be adopted, and changes which might be made in accordance with the suggested guides in Mr. Thomas' memorandum, assuming a 2-3/4 per cent discount rate or a 3-1/4 per cent discount rate. The statement also set forth, according to the several alternatives, the cost to the banks based on the rate per dollar of loanable funds after allowance for required reserves.

At the request of the Board, Mr. Hackley summarized the provisions of Regulation Q and its supplement relating to the payment of interest on time and savings deposits, along with the underlying statutory provisions. He pointed out that no change had been made in the maximum permissible rates of interest on time and savings deposits since 1936.

Mr. Leonard expressed the view that there was justification for some increase in the prevailing maximum rates and said that a principal
question was the relationship between the maximum rates payable on savings deposits and on time deposits. There were, he felt, some arguments in favor of more frequent changes in the maximum interest rates for time deposits than in the maximum rate for savings accounts, among them the fact that the rates on time deposits have a closer relationship to rates in the money market. He also noted that a shifting from demand to time deposits had been a problem in the past and was one which might be accentuated if banks started to bid for time accounts through payment of higher rates of interest. However, he considered it a problem that could and must be lived with. From the information available, it appeared to him that the question at present was not so much a shift from demand to time deposits as a desire on the part of commercial banks to retain existing time deposits.

In response to questions by Governor Vardaman regarding administrative problems that might be created by frequent changes in the maximum rates of interest, Mr. Leonard said that in using the term "frequent changes" he had in mind changes perhaps once or twice a year, particularly for time deposits, as contrasted with the past practice of maintaining maximum rates which for many years were well above the rate of interest actually paid. He did not mean to infer, he said, that there would necessarily need to be a change in the prescribed maximum with every small change
in the discount rate; on the other hand, he did not think that changes two or three times a year would be out of line if changes in the money market indicated the advisability of such action.

Mr. Horbett commented that a shifting of the status of deposits was less likely to occur in savings deposits than in time accounts. Although he did not have current statistics on the proportion of time deposits that were actually "savings accounts", a rough estimate indicated that the proportion would be about 75 per cent. He had some question whether the maximum rate on savings deposits ought to be increased and also a little doubt whether it would be desirable to make frequent changes in the maximum rates on time accounts.

As an additional comment on the administrative problem, Mr. Hackley pointed out that when the Board had reduced a maximum rate at times in the past it had taken the position that such a reduction would not prevent a member bank from paying the higher rate under any existing contract until the expiration of that contract, unless the contract permitted the member bank to change the rate. He also referred to time certificates with varying maturities issued by banks increasingly during the last few years and to the difficulty in determining in a number of these cases whether the rate payable was within the maximum rates prescribed by the Board's regulation. This difficulty would be eased, he pointed out, if two rather than three maximum rates could be established for time deposits.

Mr. Eckert said that his views were somewhat at variance with the tenor of the discussion thus far because, although he was convinced that
some rate regulation was needed, he doubted the desirability of having
differentials in maximum permissible rates for time deposits having dif-
ferent maturities. The problem was one of how to select differentials
and how to keep them current. While the question tended to take care of
itself in periods of easy money, in periods of tight money it seemed to
be the pattern for short-term rates to rise approximately to the long-term
rates. One procedure would be to fix a differential that was only slightly
below the ceiling, in order to comply with the present law, and give pri-
mary concern to the appropriateness of the ceiling itself. He would be
inclined to use the same ceiling for time deposits with maturities of
six months or more as that established for savings deposits, and to fix
one other maximum rate for time deposits with maturities of less than
six months.

Mr. Young commented that in the consideration of this problem
some guiding principles were available that were quite clear. The ob-
jective of the statutes, he said, was to put a restriction on the ability
of banks to compete for savings as a means of limiting them to a commercial
type of business, and to keep banks from competing with other types of
savings institutions for time and savings accounts. Mr. Young thought
that this principle had a great deal of merit in the light of the history
of banking in this country and in view of this background, he doubted
whether the existing maximum rates were too low. They were sufficiently
high to enable banks to do some time and savings account business, and
if an increase were to be made, he thought it should be relatively small.

Mr. Noyes said he had a great deal of sympathy for Mr. Eckert's position. One substantial difficulty at present was in the differential between the rate of 1 per cent for time deposits with maturities of less than 90 days and 2 per cent for time deposits with maturities from 90 days to six months. He felt that this feature made the whole current schedule less logical and reasonable than it would be otherwise.

Mr. Riefler said that he was not convinced of the need for a change in the current maximum rates and that although Mr. Thomas had presented certain suggestions in his memorandum, he understood from Mr. Thomas that these were set forth as possibilities the Board might wish to consider if it should decide on any change. The basic thing, Mr. Riefler said, was the problem of mixed banking; that is, a mixture of long and short term banking in one institution. In the case of a small country bank there was not enough business to support a segregation of financial functions and allowance therefore had to be made for such a bank to perform mixed functions. In the large cities, however, there was less justification for such a mixture of functions. The question, therefore, was one of establishing some control that would prevent aggressive banks from entering further into a mixed business. Mr. Riefler said there was a distinct movement toward expanding the types of bank services, and he raised the question whether this development was something that the Board wished to
see in the financial structure. He went on to say that the situation was further complicated by the system of deposit insurance, which meant that a bank going out to develop a savings deposit business was able to offer the depositor what amounted to a "due bill on the United States Treasury" up to $10,000, and at the same time was able to invest the money in long-term high-yielding assets. Personally, he considered this bad business. If the Board should keep the maximum rate at 2-1/2 per cent it would have some control over the situation, but if the Board should increase the maximum rates, he felt that it would be in effect indulging in a competitive relaxation of its regulations. To him it would be a sounder course for the Board to hold its position until something was done about the savings and loan situation.

Mr. Riefler also said that any time deposit with a maturity of under six months is close to a demand deposit, and the incentive for a bank to condone a shifting of demand deposits into time deposits grows as interest rates increase. The situation is conducive to laxity on the part of both the bank and the depositor, and he would be happier if the definition of a time deposit called for a maturity of more than six months. On the administrative side, he agreed with Mr. Eckert that there would be justification for only one ceiling rate, except for a small differential to observe the statutory requirements in the case of time deposits.

Governor Vardaman said that although he had a great deal of faith in Mr. Riefler's judgment, the arguments Mr. Riefler had raised against
a modification of the maximum rates on time and savings deposits were reminiscent of those heard 30 years ago when commercial banks were actively expanding their savings accounts, and more recently when commercial banks were instituting small loan and consumer loan departments. He asked whether the Board favored restriction of commercial banks to commercial banking functions only or whether it favored further development of the "department store" bank. Governor Vardaman expressed the personal view that the department store bank was the only salvation of private banking. If banks were to be restricted along traditional commercial lines, he felt that the function of banking might have to be taken over by the Government because there would not be enough money in the business to warrant the banking structure that had been built up throughout the country. He also felt that rate problems were pretty well self-policing, and that every effort should be made to make it possible for banks to compete on a sound basis with other financial institutions. Perhaps the point had been reached where a determination would have to be made of the proper functions of the commercial bank, and perhaps more reliance would have to be placed on efficient examining and supervisory measures to prevent abuses. Governor Vardaman agreed, however, that when one got into the area of time deposits with maturities of less than six months, such deposits came close to being demand deposits. In substance, he felt that some area must be left for administration by the private banks, and that failure on the part of the Board to take action on the maximum
interest rates would represent an injustice to the banking fraternity. He also suggested that the problem of fixing maximum rates of interest might be referred to the committee headed by Senator Robertson in connection with that committee's study of the Federal statutes having to do with banking and credit.

Governor Mills said that he agreed substantially with the views expressed by Mr. Young and that he thought the Board should not exaggerate the problem now under consideration. Essentially, he said, the Board was considering whether the maximum rates of interest on savings and time deposits should or might reasonably be raised. He went on to say that this question should be considered in the light of experience and statistics which showed that commercial banks were not as a group taking advantage of the present maximum rates, so that if the ceiling was raised those taking advantage of the new maximum rates very possibly would be the aggressive banks spoken of by Mr. Riefler. He did not think there would be any "herd" movement to the new maximum rates. In his opinion there was reason for a differential between the maximum rate applied to savings deposits and the rate applicable to time deposits, since the savings deposit is a personal investment that tends to be long-term in character, while the time deposit is a short-term investment that attracts principally the business concern which has accumulated funds for an alternate investment purpose. With regard to the requests received from New York City banks for an increase in the maximum rates on time deposits,
he said that the problem appeared to be very much a local matter. The
cconcern expressed by the New York City banks had to do with a possible
loss of time deposits, principally deposits owned by foreigners, and it
must be remembered that New York City banks hold most of the foreign-
owned time deposits. Theoretically, a case could be made for a fluc-
tuating rate that would conform to changes in monetary policy, and this
would suggest that at the present time the rate on foreign-owned time
deposits should be kept on a basis that would be competitive with Treas-
ury bills and other alternative forms of investment. Also, if it was
true that investors are interested in maturities of increasing length,
as exemplified by serial bonds where shorter maturities are issued at
low yields and the longer maturities at ascending yields, there would
seem to be a case for relating time deposits to that kind of structure
and making them an equally attractive form of investment.

Turning to the point brought out by Mr. Riefler that an increase
in the current maximum interest rates could lead to bad banking practices,
Governor Mills said that if the maximum rate on savings deposits were
raised to 3 per cent, a case could be made that the higher rate would serve
to hold bona fide savings at the commercial banks, which probably are better
supervised and regulated than competing types of institutions. By and large,
it seemed to him that the problem deserved more consideration by the Board,
but that there would be reason to raise the maximum rate on savings accounts
to 3 per cent and to maintain the existing maximum rates on time deposits.
He also felt that careful consideration should be given to prohibiting payment of interest on time deposits with a maturity of less than 90, or perhaps 60, days.

Governor Robertson said that if the statutes could be completely rewritten, he would favor eliminating any limitations on interest rates on deposits. He was not impressed by the reasons given for such limitations on interest rates, and if they had not been provided for in the law, he felt that a much healthier kind of competition would exist today. If the maximum rate on savings deposits were raised to 3 per cent, the result would be, he suggested, to put banks in a competitive position with the United States Government for savings, at least up to the $10,000 limitation on the insurance of deposits. Accordingly, he had doubts about increasing the maximum rate on savings deposits. As for time deposits, while he would prefer to do away with any maximum and leave the field completely free, he recognized that the Board was obliged to fix a maximum rate. The demand for an increase was coming from a very few banks and it appeared that the majority of banks did not want any change whatsoever. In this connection, he understood that the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation had not received any requests.

Governor Robertson noted that the maximum rates were essentially for the protection of the banks themselves, but said he was not sure whether that was a proper basis on which the Board should make a decision.
If any change was decided upon, he would favor maintaining the tradition of establishing three different maximum rates for time deposits according to maturities.

Governor Shepardson said that he was inclined to agree with the views expressed by Governor Vardaman. One must accept the fact that there will be change, he said, and department store banking might be a part of the scheme of things in the future. It would be unfortunate in his opinion for the Board to take an adamant position of trying to block that kind of change. He understood the purpose of fixing maximum rates was primarily a matter of protection to the banks, designed to encourage prudent practices under competitive conditions. Accordingly, the problem came up principally at times such as the present. In his view, there was a justification for some increase in the current maximum rates, but they should be kept at a prudent level and one which would be consistent with the basic purpose of establishing rate limitations. In other words, the maximum rates should not prevent banks from holding or obtaining a reasonable amount of time and savings deposits, but they should not leave the gate open for a recurrence of the difficulties of the 1920's attributed to competitive bidding for deposits. There might be reason for going to 3 per cent at this time on savings deposits and longer-term time deposits, but he did not think that one would want to go that high on shorter-term time deposits. He did not think that deposits of less than 90 days should be classed as time deposits.
Governor Szymczak said that his views were substantially the same as those expressed by Mr. Riefler and that he did not think the Board should increase the maximum rates at this time. Referring to competition between banks and savings and loan associations, he suggested that this was a good illustration of the kind of thing which caused the enactment of the current statute. The legislation, he said, was designed for the protection of banks themselves, and with a high-level economy he felt that the existing degree of competition for funds was apt to continue. He also suggested that such competition might increase as the maximum rates were increased. Therefore, he would go along with Mr. Riefler's approach. He would, however, discuss the situation with the Presidents' Conference and the Federal Advisory Council.

Chairman Martin said that the various expressions of views had brought the discussion to a point that he had anticipated, that he did not know the best solution, but that it was obvious that the Board was not ready to act on changing the maximum rates of interest. His own thinking, he said, favored a middle of the road approach, although originally he was quite persuaded by the point of view expressed by Mr. Riefler. He thought that in theory this point of view was completely sound, but as a practical matter he was not so sure. It came to the point of considering the situation as it exists, rather than what one would have liked it to be. It appeared that the Board must highlight the problem and take the leadership at some point, but perhaps this would mean stirring up a great deal of trouble.
Governor Vardaman said that the discussion appeared to indicate general agreement in one area; that is, that banks should not be allowed to pay interest on time deposits of short maturity, perhaps less than 90 days. In the light of the statements which had been made, he was inclined to go along with that approach.

In a discussion of what further steps should be taken, Governor Robertson said that he had consulted informally with the Federal Deposit Insurance Corporation and that at the moment the Corporation, as well as the Office of the Comptroller of the Currency, was opposed to any increase in the maximum rates. It was felt in both agencies, however, that the problem should be the subject of continuous study.

Chairman Martin stated that he had discussed the matter with the Treasury, both at the Secretary and the Under Secretary level, and that the Treasury had no position at this time. However, that Department was confronted with a substantial problem in regard to the rate of return on savings bonds and it was understood that the Treasury might approach the Congress, in the event the current situation continued, with a request to increase the interest rate level on those securities.

After the comment had been made that in such a situation premature action on the part of the Board might place the Treasury in an untenable position, Chairman Martin said he thought the Board should continue to study the matter, and that pending a decision inquiries could be answered by the statement that the Board was studying the problem actively.
It was noted that the question of increasing the maximum rates of interest on shorter-term time deposits had been referred to the Presidents' Conference and the Federal Advisory Council with a request for expressions of views at the next meetings of those bodies, and it was understood that in the absence of unforeseen developments, no action would be taken by the Board until after the requested views had been obtained.

There was presented for consideration the following letter to Mr. Newman, Vice President of the Federal Reserve Bank of Chicago, which had completed circulation to the members of the Board after the preparation of the agenda for today's meeting:

Reference is made to your letter of July 27, 1956, in which your Bank requests the Board's approval of an upward adjustment of 7 per cent in the salary structure applicable to your Chicago office.

The Board approves the following minimum and maximum salaries for the respective grades for the Federal Reserve Bank of Chicago, effective today.

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<th>Maximum Salary</th>
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The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate ranges as soon as practicable and not later than December 1, 1956.

The Board understands there are adequate funds in the 1956 budget to meet the cost of contemplated salary increases resulting from this increase in salary ranges.

Approved unanimously.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda from appropriate individuals recommending that the resignations of the following employees be accepted as indicated:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Effective Date</th>
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<tbody>
<tr>
<td>Eunice M. Boyd, Secretary</td>
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<td>August 29, 1956</td>
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Secretary