Minutes for October 12, 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.

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, October 12, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Hackley, Assistant General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics

Governor Robertson reported having been advised that the Comptroller of the Currency was sending to the Bureau of the Budget today his comments on the legislative suggestions that the Board submitted recently to the Senate Banking and Currency Committee in connection with that Committee's study of the Federal statutes governing financial institutions and credit. He understood that the Comptroller was raising questions with regard to two of the suggestions, the first of which, among other things, would empower the Board to require or waive publication of earnings and dividend reports in the case of State member banks. The reason for the question was that the Comptroller's Office felt it might be difficult to get banks to make charge-offs at the request of the examiner.
Governor Robertson said he told the Comptroller's Office that he felt that Office should present its views as it saw the matter. The other question related to the Board's suggestion for an amendment to section 9 of the Federal Reserve Act to provide that, with the approval of the Board, a State member bank may purchase and hold temporarily stock of another bank as one step in the process of absorbing such other bank through merger or similar procedure. The reason for the question being raised in this connection was that the Comptroller's Office considered such an amendment unnecessary and perhaps undesirable because it felt that the shareholders of the bank which would be absorbed should be allowed to act on the matter. Governor Robertson said that he believed no one had strong feelings on the subject, that he saw no reason for the Board to change its recommendation, and that certainly the matter was not "open and shut".

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. Latham, First Vice President, Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of September 26, 1956, and enclosure advising of the proposal of the Rhode Island Hospital Trust Company, Providence, Rhode Island, to consolidate two branches known as the Commerce and Phenix offices at a new location at the corner of Dorrance and Westminster Streets in Providence.
It appears that the new location is approximately 200 yards from the location of the present Phenix Office and 60 yards from the location of the present Commerce Office. A branch of the Industrial National Bank is located directly across the street from the proposed new location.

It is understood that no banking operations will be carried on at the present locations of the Commerce and Phenix offices of the Rhode Island Hospital Trust Company after they are consolidated at the new location at the corner of Dorrance and Westminster Streets.

On the basis of the information submitted, it appears that this proposal would constitute a mere relocation of the existing branches in the immediate neighborhood without affecting the nature of the business or customers served, and, accordingly, we concur in your view that the approval of the Board of Governors is unnecessary.

Approved unanimously.

Letter to Mr. Charles Cain, Jr., Executive Vice President, The Chase Manhattan Bank, New York, New York, reading as follows:

In view of the request contained in your letter of September 17, 1956, transmitted through the Federal Reserve Bank of New York, and on the basis of the information contained therein, the Board of Governors extends to March 31, 1957, the time within which The Chase Manhattan Bank may establish a branch at 1012 Munoz Rivera Avenue in the Rio Piedras section of the City of San Juan, Puerto Rico, under the authority granted in the Board's letter of January 23, 1956.

It is understood that The Chase Manhattan Bank will continue to operate its temporary branch in the Monserrate Building at the northwest corner of Munoz Rivera Avenue at University Avenue, in the Rio Piedras section of San Juan, as authorized by the Board's letter of March 14, 1956, pending completion of the permanent quarters.

It is requested that you advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is established in its permanent quarters.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.
Letter to Mr. J. Park Smith, Cashier, The National Bank of Topton, Topton, Pennsylvania, reading as follows:

This refers to your letter of August 31, 1956, presenting certain questions as to whether payment of interest in the various methods described in your letter on time certificates of deposit and on time deposits, open account, would comply with this Board's Regulation Q.

With respect to your "Problem 1," where a certificate of deposit in the amount of $1,000 matures after six months and bears interest at 2-1/2 per cent per annum, payment of interest in the amount of $12.50 at maturity would comply with the Board's regulation.

Your "Problem 2" relates to a certificate of deposit in the amount of $1,000 maturing after one year and bearing interest at a rate of 2-1/2 per cent per annum. It is understood that if, after the first period of six months, the depositor gives 30 days' notice of withdrawal, interest would be paid at a rate of 1 per cent for 30 days and that if, after the end of the first six months' period, 90 days' notice of withdrawal is given by the depositor, interest would be paid at a rate of 2 per cent for 90 days; and that in either case, as indicated in (a) of your statement of the problem, interest in the amount of $12.50 would be paid for the first six months' period.

Such a method of paying interest would not comply with the Board's regulation. The certificate would appear to have three alternate maturities, i.e., one year after date, withdrawal after 30 days' notice, or withdrawal after 90 days' notice. The maximum rate of interest which could be paid for the entire period from the date of deposit would depend upon which of these three alternate maturities is elected by the depositor. Thus, if a deposit is withdrawn after 30 days' notice, the maximum rate of interest which could be paid, not only for 30 days, but for the period since the date of deposit, including the first six months' period, would be 1 per cent per annum. Similarly, if withdrawn after 90 days' notice, the maximum rate which could be paid from the date of deposit would be 2 per cent. In this connection, your attention is called to a recent interpretation of the Board published in the August 1956 Federal
Reserve Bulletin at page 833, in which the Board held that a certificate of deposit would not comply with Regulation Q where it provided for payment of interest at a rate of 2 per cent upon the withdrawal of the deposit on 30 days' advance notice after the 90th day following the date of deposit.

It may be noted, however, that the objection to the certificate described under your "Problem 2" might be overcome by a modification of the contract. If the certificate were to provide specifically that it should mature six months after the date of deposit and, if not withdrawn at that time, should be deemed to be renewed for another six months, with the privilege on the part of the depositor after the first six months of withdrawing the deposit on either 30 days' notice or 90 days' notice, it would then be permissible under the regulation to pay 2-1/2 per cent on the deposit for the first six months' period and 1 per cent, 2 per cent, or 2-1/2 per cent after the expiration of that period, depending upon whether subsequent withdrawal is made after 30 days' notice, after 90 days' notice, or at the expiration of the second six months' period.

Your "Problem 3" relates to a time deposit, open account, bearing interest at a rate of 2-1/2 per cent payable each six months' period on the balance remaining on deposit for a full six months' period, but providing for interest at 2 per cent if withdrawn after 30 days' notice or at 2 per cent if withdrawn after 90 days' notice. Again, since the maximum rate of interest depends upon the withdrawal privilege elected by the depositor and not upon the time during which the deposit is left with the bank, interest could be paid in such a case at 2 per cent after 30 days' notice or 2 per cent after 90 days' notice but could not be paid at a rate of 2-1/2 per cent unless withdrawal at such a rate were made at a specified maturity not less than six months after the date of deposit or after the giving by the depositor of not less than six months' written notice.

The statements in your letter regarding payment of interest after the expiration of the period of any notice of withdrawal are correct.

Your final "Problem 4" stating that time deposits, but not savings deposits, are available to all bank customers including corporations, is correct.

It is suggested that if you should have any further questions regarding this or similar matters you might wish to take
them up with the Federal Reserve Bank of Philadelphia, which will be glad to assist you.

Approved unanimously, with a copy to the Federal Reserve Bank of Philadelphia.

Secretary's Note: When this file was in circulation, Governor Shepardson suggested that further study be given to a possible amendment of Regulation Q, Payment of Interest on Deposits, relating to the maximum rate of interest payable on a time certificate of deposit which cannot be withdrawn during the first six months after date of deposit.

Letter to the Board of Directors, First-City Bank & Trust Company, Hopkinsville, Kentucky, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment of a branch by First-City Bank & Trust Company, Hopkinsville, Kentucky, adjacent to the corner of New Clarksville Road and a proposed extension of Morning Side Drive within the corporate limits of Hopkinsville, provided the branch is established within nine months from the date of this letter, and the approval given by the State banking authorities is effective as of the date the branch is established.

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

Letter to the Board of Directors, The First National Bank of Vandalia, Vandalia, Illinois, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of
State or local law, 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 Illinois. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System. A formal certificate indicating the fiduciary powers which The First National Bank of Vandalia is now authorized to exercise will be forwarded to you in due course.

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

Letter to Mr. Mills, Chief Examiner, Federal Reserve Bank of Kansas City, reading as follows:

This will acknowledge your letter of September 26, 1956, addressed to Mr. Sloan, in which you enclosed a copy of a letter from the law firm of Morelock, Hoskins, King, Springer and McGannon, Kansas City, Missouri, presenting the question, in effect, of the applicability of the Bank Holding Company Act of 1956 to a situation hypothetically stated as follows:

"Corporation A owns 51% of the stock of Bank No. 1 and 20% of the stock of Bank No. 2. Corporation B owns 30% of the stock of Bank No. 3, 10% of the stock of Bank No. 4 and 10% of the stock of Bank No. 5. One individual owns all of the stock of Corporations A and B."

On the basis of the information presented, the Board is of the opinion that neither Corporation A nor Corporation B is a bank holding company. Section 2(a) of the Act specifically provides that a bank holding company for purposes of the Act is a company which owns 25 per cent or more of the voting shares of two or more banks. Since Corporation A and Corporation B, respectively, own 25 per cent or more of the stock of only one bank, neither Corporation falls within...
the Act. Further, the fact that one individual owns all of the stock of Corporation A and Corporation B is without significance since an individual is not within the definition of "company" under section 2(h) of the Act.

Approved unanimously.

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

The Board's letter of July 20, 1956, requesting reports on credit extended to real estate mortgage lenders as of August 8, mentioned that further surveys of such credit might be requested if revisions of Schedule A of the call report of condition were not made to incorporate items showing loans made to various types of financial institutions.

It still seems desirable to obtain information from time to time concerning the volume of this credit outstanding, and it is not expected that the proposed revision of Schedule A will be effected in the near future.

In the circumstances, the Board has decided to forego another survey this fall and that semiannual surveys of credit extended to real estate mortgage lenders will suffice, with the next one scheduled for February 13, 1957 and a subsequent one for August 14, 1957.

If Budget Bureau clearance is obtained, we shall forward sample forms in January for the use of the respondent banks in your District, together with the Budget Bureau approval number to be used.

Approved unanimously.

Memorandum from the Division of Examinations dated October 8, 1956, submitting revised pages of the report of examination of State member banks for approval prior to printing and distribution to the Federal Reserve Banks for future use. The revised pages concerned principally affiliate relationships of a State member bank in the light of the enactment of the Bank Holding Company Act of 1956 and the memorandum stated that the revisions reflected the comments and suggestions of the Federal Reserve Banks, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

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

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<th>Date</th>
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<td>Boston</td>
<td>October 8</td>
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<td>San Francisco</td>
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<td>New York</td>
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<td>Cleveland</td>
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Approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of a draft of letter for the signature of Chairman Martin to The Honorable Philip Young, Chairman, United States Civil Service Commission, discussing the procedures followed at the Board in connection with the campaign for the United Givers Fund in the light of Mr. Young's letter of September 18, 1956, to the heads of executive departments and agencies concerning the standards established under the Federal fund-raising program.

In commenting on the matter, Mr. Sprecher stated that the draft of letter was intended to provide appropriate information but not commit the Board fully to the Federal fund-raising program, since that program was understood to envisage another campaign in the spring of 1957 for certain agencies that did not participate in the United Givers Fund
drive. Mr. Sprecher pointed out that it had been the policy of the Board for a number of years to limit the number of drives for funds within its organization, except to the extent of allowing containers to be placed at appropriate locations for minor contributions, and that in presenting the United Givers Fund campaign to the staff it had been rather clearly indicated that no other drives would be organized for another year. He also said that in conducting the campaign for the United Givers Fund due consideration was given to the procedures recommended under the Federal fund-raising program. The Board's quota, he said, had been met successfully.

Chairman Martin said he felt that a good job had been done in connection with the United Givers Fund and that the Board should endorse the policy of not having additional fund-raising campaigns within the Board's organization during the year, except to provide facilities for minor contributions in the manner that Mr. Sprecher had mentioned. The other members of the Board expressed agreement with Chairman Martin's statement.

An editorial change in the draft of letter which was suggested by Governor Robertson having been accepted, unanimous approval was given to a letter to Mr. Young reading as follows:

For your information in connection with the Federal fund-raising program and your letter of September 18 addressed to the Heads of Executive Departments and Agencies, we are happy to tell you that we have just about completed a campaign for the United Givers Fund here in the Board of Governors of the Federal Reserve System which has been successful. You will be
interested to know that we set up an organization chairmaned by me with the Assistant Director of our Division of Personnel Administration as my Vice Chairman who was directly in charge of this campaign. Our organization was made up of 40 employees of the Board representing both management and the employees by designating division chairmen, vice division chairmen, and keymen from each division and level of the Board’s staff. This organization represented about one keyman for every 15 employees.

Meetings were held with the division chairmen and keymen, and each solicitor was briefed on the purpose of the drive, the organizations represented, use of the fair share standards, and the manner in which prospective contributors should be contacted giving adequate opportunity for the giver to exercise his option of keeping his gift confidential. The optional use of the solicitation envelope was explained.

In addition, we had a voluntary meeting of all employees of the staff at which the Vice Chairman fully explained the campaign so that all employees would have a better opportunity to make their own decision regarding their fair share of this community effort. One of our Board Members participated in this meeting and discussed the significance of this new approach to community giving.

We feel that this campaign has been carried out, as have all others at the Board, with ample opportunity for all to participate on an entirely voluntary basis.

Consideration then was given to a memorandum from the Division of Personnel Administration dated October 8, 1956, concerning a development in connection with participation by the Board in the Rockefeller Public Service Award program. In cases to date where members of the Board’s staff received such awards, the Board had followed the practice of continuing the employee on its payroll, with the Public Service Award covering travel and other necessary expenses. It now developed that the
Comptroller General of the United States had ruled in effect that unless an agency had by legislation been granted the right to have off-site training, it might not pay either the salary or other expenses of an employee receiving one of the Awards. The memorandum stated that while there might be some question whether the Board would be bound by the decision, the Board might desire, as a matter of policy, to follow the same course as other Government agencies and place any employee receiving such an Award hereafter on a leave without pay basis or annual leave basis.

Following explanatory remarks by Mr. Sprecher, Mr. Vest said that according to the criminal statute referred to by the Comptroller General a Government employee may not receive funds from any source outside the Government in connection with his services for the Government. Assuming this statute to be applicable to the situation concerning the Rockefeller Awards, the question would be whether section 10 of the Federal Reserve Act superseded the criminal statute to the extent that the statute might otherwise be applicable.

In a further discussion during which Mr. Solomon, Assistant General Counsel, was called into the room, it was pointed out that in the cases to date involving Board employees who received Rockefeller Awards, the Board and the employee had not had the benefit of the ruling by the Comptroller General. It was the consensus of the Board that despite the provisions of section 10 of the Federal Reserve Act, the Board should proceed in the future according to the arrangements followed by other Government agencies in this respect as a matter of policy. The discussion then
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turned to the two members of the Board's staff now in Europe under Rockefeller Public Service Awards who continue on the Board's payroll. The suggestion was made that the Legal Division might consult informally with the Department of Justice on the matter but in view of certain questions which were raised regarding such a procedure, Chairman Martin proposed that the Board not make a decision today, that the Legal Division give additional thought to the matter, and that there then be a further discussion of the subject.

The meeting then adjourned.

Secretary's Note: Governor Szymczak, acting as alternate to Governor Shepardson, today approved on behalf of the Board the following letter to Mr. Kroner, Vice President of the Federal Reserve Bank of St. Louis:

In accordance with the request contained in your letter of October 5, 1956, the Board approves the appointment of Carl Thomas Fisher as an assistant examiner for the Federal Reserve Bank of St. Louis. Please advise the Board if the appointment is not made effective on November 1, as planned.

[Signature]
Assistant Secretary